DOCUMENT RESUME

ED 479 818 EC 309 754

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TITLE	Sound Financial Management: A National Conference (Dallas, Texas, August 26-28, 2002). Participant's Manual.
INSTITUTION	Institute for Rehabilitation and Research, Houston, TX.; National Council on Independent Living, Arlington, VA.
SPONS AGENCY	Rehabilitation Services Administration (ED), Washington, DC.
PUB DATE	2002-00-00
NOTE	142p.; Cover title reads "$ound Financial Management." Developed as part of the IL NET: an ILRU/NCIL (Independent Living Research Utilization/National Council on Independent Living) National Training and Technical Assistance Project.
CONTRACT	H13B99002
AVAILABLE FROM	ILRU Program, The Institute for Rehabilitation and Research, 2323 S. Shepherd St., Suite 1000, Houston, TX 77019. Tel: 713-520-0232; Fax: 713-520-5785; e-mail: ilru@ilru.org; Web site: http://www.ilru.org. National Council on Independent Living (NCIL), 1916 Wilson Blvd., Suite 209, Arlington, VA 22201. Tel: 877-525-3400 (Toll Free); Fax: 703-525-3409; e-mail: ncil@ncil.org; Web site: http://www.ncil.org.
PUB TYPE	Collected Works - Proceedings (021) -- Guides - Classroom - Learner (051)
EDRS PRICE	EDRS Price MF01/PC06 Plus Postage.
DESCRIPTORS	Accountability; *Accounting; Administrative Policy; Adults; *Agencies; Audits (Verification); *Disabilities; *Financial Policy; Governing Boards; *Independent Living; *Money Management; Recordkeeping

ABSTRACT

The participant's manual contains training materials for a national conference on sound financial management for agencies concerned with promoting independent living for people with disabilities. Preliminary materials include the conference agenda, background information about the trainers, and organizational information on Independent Living Research Utilization and the National Council on Independent Living. A list of the conference's learning objectives is followed by a section on internal procedures and processes including board and committee roles and responsibilities, financial role, the board's responsibility/authority in finances, board and staff relations, internal controls, and policy manuals and other documentation. The next section is a sample of a local independent living organization account policies manual with sections addressing general policies, policies associated with revenues and cash receipts, policies associated with expenditures and disbursements, policies pertaining to specific asset and liability accounts, policies associated with financial and tax reporting, and financial management policies. The following section presents bookkeeping basics for the not-for-profit bookkeeper and is followed by a section on external processes including independent audits, government audits, the single audit report, and responsibility of the auditor and the organization. Sample policy documents are appended. (DB)

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IL NET Presents...

ED 479 818

$ound Financial Management

August 26-28, 2002
Dallas, Texas

EC 309 754

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Expanding the Power of the Independent Living Movement

IL NET
an ILRU/NCIL National Training and Technical Assistance Project

Expanding the Power of the Independent Living Movement

$OUND FINANCIAL MANAGEMENT

A National Conference

Participant's Manual

August 26-28, 2002
Dallas, Texas

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IL NET is funded through a special provisions cooperative agreement with the U.S. Department of Education, Rehabilitation Services Administration, Agreement No. H132B99002.

$ound Financial Management

A National Conference
August 26-28, 2002

Participant's Manual

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$OUND FINANCIAL MANAGEMENT
August 26-28, 2002

Agenda

Mon. Aug. 26

8:30	Continental Breakfast
9:00-9:20	Welcome, Introductions and Overview

Board and Staff Roles & Responsibilities

9:20-10:00	Do's And Don'ts for Boards and Staff in Financial Managment - Frank
10:00-10:30	The Role of Board Committees - John
10:30-10:45	Break

Developing and Using Consistent Proper Practices

10:45-12:00	Establishing a Policy Manual - John Records Retention
12:00- 1:30	Lunch on Your Own

Internal Controls

1:30 – 2:30	Safeguarding Assets - John Separation of Duties Problems that Nonprofits Can Get Into Group Dialogue

Internal Reports and Financial Statements

2:30 – 3:00	Elements of a Statement - John Writing, Interpreting, and Analyzing Reports
3:00 – 3:15	Break
3:15 – 4:50	Working with Reports continued
4:50-5:00	Summary of The Day and Overview of Tomorrow

Tues., Aug. 27

8:30	Continental Breakfast

External Reports and Processes

9:00 – 10:30	Independent & Government Audits - John Funders' Reporting Requirements - Frank Lobbying Rules & Reporting - John
10:30-10:45	Break
10:45-11:15	Other Reporting Requirements - John

Fund Raising Issues

11:15-12:00	Special Event Planning - John Raising Money Through the Internet Tax Aspects of Contributions
12:00- 1:30	Lunch on Your Own

Measuring Outcomes

1:30 – 3:00	What Are Outcomes and Why are They Important? - John The Relationship of Outcomes to Program and Budget Objectives
3:00 – 3:15	Break
3:15 – 3:45	Group Exercise to Develop Outcomes - Frank
3:45 – 4:50	Group Exercise: Developing a Budget - John
4:50 – 5:00	Summary of The Day and Overview of Tomorrow

Wed., Aug. 28

8:30	Continental Breakfast
9:00 – 9:30	Feedback from Yesterday's Exercise

Budgets

9:30 –10:30	Developing, Managing and Revising Budgets - John and Frank
10:30-10:45	Break
10:45-11:15	Budgets continued

Use of The Internet

11:15-11:30	Use of the Internet to Improve Efficiency - John
11:30-12:30	Topics of Choice From Participants
12:30	Training Adjourns

ABOUT THE TRAINERS

John F. Heveron Jr., CPA is a Certified Public Accountant, president and managing director of Heveron & Heveron CPAs P.C. He is a past president of the Rochester chapter of the New York State Society of Certified Public Accountants and a former trustee of the New York State Foundation for Accounting Education. John chairs the accounting advisory board of St. John Fisher College.

John authors *Mastering the Not-for-profit Environment-Auditing, Accounting and Taxes* for the New York State Foundation for Accounting Education and the *Profitable Solutions for Nonprofits* newsletter for Professional Development Institute-Chicago. John is a member of the American Institute of CPAs and the New York State Society of CPAs. He is program chair and a past president of INPACT AMERICAS, a national network of professional accountants.

John has served as a lecturer for the NY State Foundation for Accounting Education for over 17 years. He has also served as a presenter for the American Institute of Certified Public Accountants, The National Center for Historic Preservation, New York State Council on the Arts and the United Way of Greater Rochester.

Frank Shible was the chief financial officer for the Ability Center of Greater Toledo, a center for independent living, for eight years. During his time at the CIL he worked with board and staff to grow the center from its primary location to two additional outreach offices in Toledo and Defiance, Ohio. Frank's extensive background in the accounting field brought a wealth of knowledge to the CIL in growth and budgeting experience. He has been a consultant to small businesses and organizations and done tax preparations for 20 years. He is a current member of the National Council on Independent Living (NCIL) and the NCIL finance committee.

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ABOUT ILRU

The Independent Living Research Utilization (ILRU) Program was established in 1977 to serve as a national center for information, training, research, and technical assistance for independent living. In the mid-1980's, it began conducting management training programs for executive directors and middle managers of independent living centers in the U.S.

ILRU has developed an extensive set of resource materials on various aspects of independent living, including a comprehensive directory of programs providing independent living services in the U.S. and Canada.

ILRU is a program of TIRR, a nationally recognized, free-standing rehabilitation facility for persons with physical disabilities. TIRR is part of TIRR Systems, a not-for-profit corporation dedicated to providing a continuum of services to individuals with disabilities. Since 1959, TIRR has provided patient care, education, and research to promote the integration of people with physical and cognitive disabilities into all aspects of community living.

ABOUT NCIL

Founded in 1982, the National Council on Independent Living is a membership organization representing independent living centers and individuals with disabilities. NCIL has been instrumental in efforts to standardize requirements for consumer control in management and delivery of services provided through federally-funded independent living centers.

Until 1992, NCIL's efforts to foster consumer control and direction in independent living services through changes in federal legislation and regulations were coordinated through an extensive network and involvement of volunteers from independent living centers and other organizations around the country. Since 1992, NCIL has had a national office in Arlington, Virginia, just minutes by subway or car from the major centers of government in Washington, D.C. While NCIL continues to rely on the commitment and dedication of volunteers from around the country, the establishment of a national office with staff and other resources has strengthened its capacity to serve as the voice for independent living in matters of critical importance in eliminating discrimination and unequal treatment based on disability.

Today, NCIL is a strong voice for independent living in our nation's capital. With your participation, NCIL can deliver the message of independent living to even more people who are charged with the important responsibility of making laws and creating programs designed to assure equal rights for all.

ABOUT THE IL NET

This training program is sponsored by the IL NET, a collaborative project of the Independent Living Research Utilization (ILRU) of Houston and the National Council on Independent Living (NCIL).

The IL NET is a national training and technical assistance project working to strengthen the independent living movement by supporting Centers for Independent Living (CILs) and Statewide Independent Living Councils (SILCs).

IL NET activities include workshops, national teleconferences, technical assistance, on-line information, training materials, fact sheets, and other resource materials on operating, managing, and evaluating centers and SILCs.

The mission of the IL NET is to assist in building strong and effective CILs and SILCs which are led and staffed by people who practice the independent living philosophy.

The IL NET operates with these objectives:

- Assist CILs and SILCs in managing effective organizations by providing a continuum of information, training, and technical assistance.

- Assist CILs and SILCs to become strong community advocates/change agents by providing a continuum of information, training, and technical assistance.

- Assist CILs and SILCs to develop strong, consumer-responsive services by providing a continuum of information, training, and technical assistance.

$OUND FINANCIAL MANAGEMENT

Learning Objectives

Participants will learn how to:

1. Determine what is financially proper and appropriate.
2. Control and safeguard an organization's assets and resources.
3. Track, interpret and report an organization's financial status.
4. Build a better budget.
5. Define board and staff roles in financial management.
6. Identify outcomes and why they are important.

Internal Procedures and Processes

$ound Financial Management
A National IL Net Training
August 26-28, 2002

Board and committee roles and responsibilities

Learning objectives

Participants will be able to distinguish between board vs. staff roles and responsibilities.

Participants will be able to identify the roles of different committees and how they interact.

Participants will be able to help nurture a strong involved board.

Participant input

What are the skills and work experiences of the members of your board?

What active committees does your board have?

What is the relationship between the board and committees?

Have there been trends in your ability to get good active board members?

Presentation

Your Board of Directors will always be an asset. Proper board development and utilization will significantly increase the value of this resource.

A diverse board contains a complement of skills and experience that can be extraordinarily valuable to your organization in identifying needs, developing programs, managing finances, measuring results, raising money and virtually any other responsibility your organization has outside of its day-to-day operations. The fact that those talents do or can exist on your board doesn't mean that you benefit from them fully. There are ways to turn your board into a dynamic force for your organization.

The organization and its board must clearly understand responsibilities of the board.

1. The board is responsible for developing and assessing policies including corporate policy-assuring that the organization complies with external requirements and requirements of its own organizing instruments. Of course that implies that the board will also assess the appropriateness of those organizing instruments.

2. The board needs to regularly review the operations of the agency and the activities and decisions of its committees.

3. The board is responsible for the relationship to the community that it serves. Board members must understand the need for services and advocacy in the community, the nature of services and advocacy offered, including priority of services to be delivered and advocacy to be undertaken.

4. The board should be aware of policies regarding payment for services through grants, contracts, fees, etc. and collection policies as well.

5. The board has specific responsibilities for compensation of senior management staff of the organization. Changes in the rules about intermediate sanctions make it clear that the board must be involved in the review of compensation for the president/Executive Director and other senior management staff.

6. The board is responsible for financial direction including assessment of budgets and review of financial activities.

7. The board is responsible for the board. The present and proposed operations of the organization dictate the skills necessary to develop and maintain a proper direction for the organization. The board needs appropriate skills and commitment to guide the organization and that may mean recruitment of additional board members. The board should assess its own strengths in each key operating area.

Perform your own board assessment. Does the board have expertise in:

- ✓ Operations
- ✓ marketing
- ✓ fund-raising
- ✓ finance
- ✓ Law
- ✓ human relations
- ✓ technology

Does the board evidence:

- ✓ genuine interest in the organization and the populations it serves?
- ✓ Appropriate diversity (gender, race, disability, etc.)?
- ✓ experience and fresh ideas?
- ✓ An organized approach to meetings with an agenda and prompt start/finish times?
- ✓ Focus on policy issues rather than day-to-day operations?
- ✓ An appropriate financial commitment to the organization?
- ✓ The need to be involved with fund-raising?

Does the board understand:

- ✓ Its responsibilities and role?
- ✓ Its legal liability?
- ✓ The need to develop future board members?
- ✓ Responsibilities for attendance at regularly scheduled meetings?

Does the organization provide the board with:

- ✓ Orientation for new members?
- ✓ Regular training in services the organization provides?
- ✓ An outline of board operations and procedures?

Committee development and responsibilities

Committees improve the efficiency of the board through focus on specific areas of need. Special skills of certain board members can be matched with specific needs of the organization to deal with current issues. The number and nature of committees a board creates may depend upon the size and resources of the organization.

Typical committees include executive, development/fund-raising, finance, personnel, long-range planning, and facilities. Committees will normally include or involve some organization staff.

The board may delegate responsibility to committees. However, committees frequently develop recommendations that the board will assess and improve.

Committee participation and role of the committees

Every board member should be encouraged to participate in committees. This permits greater focus on specific issues and often a closer working relationship with staff.

Some typical committees include:

Executive—this committee exists in some organizations and usually includes the officers of the organization. Its members can serve as advisers to the executive director. This committee can also deal with matters that need immediate attention and cannot wait for a board meeting. This committee can work on board development, serve as a nominating committee for officers and serve as liaison to other committees.

Personnel—this committee is responsible for developing and updating personnel policies. It will also be their role to develop and update job descriptions for senior staff. Members will review salary levels and make recommendations to the board regarding salary adjustments. They will participate in or review performance evaluations for the executive director/CEO. They also serve as liaison for employment related issues that arise, for example, a grievance filed by staff.

Human relations training and experience are helpful for members of this committee. General management knowledge is also valuable.

Finance—this committee is responsible for developing a sound budget, review and approval of budget updates, development of policy regarding collection follow-up, review of monthly or quarterly financial reports, liaison with independent accountants, assuring that required filings are being done on a timely basis, establishing investment policy, banking and borrowing relationships.
Financial skills are necessary here. Individuals in public accounting, banking and other areas of finance can be good candidates. This committee should also include the board treasurer.

Long-Range Planning or Facilities—this committee will be involved in the long-range physical facilities requirement of the organization. This committee will also work with other long-range issues such as strategic planning and assessment of the impact of new services that may be undertaken.

General management skills are helpful for this committee. If the organization has or is planning to have substantial real property investments, it is important that committee members have skills in real property development/management.

Development/fund-raising-This committee will focus on annual and long-range planning for fund-raising. Special events, solicitations, capital campaigns and the like should be planned to ensure consistency and avoid overlap. This committee will work closely with the Finance Committee so that fund-raising is coordinated with budgeting.

Training and experience in fund-raising are valuable assets for members of this committee. Knowledge about planned giving and tax rules for contributions are also helpful.

Commitment of the organization to the board

- ✓ Keep the board informed about program, financial and personnel matters.
- ✓ Communicate board decisions to appropriate staff.
- ✓ Implement budgets and policies approved by the board.
- ✓ Respect the board members' time and responsibilities.

Commitment of the board member to the organization

- ✓ Attend and participate in all meetings to the extent possible.
- ✓ Consider service on one or more committees.
- ✓ Focus on policy and direction not day-to-day operations of the organization.
- ✓ Share all communications with the president and support the president in the execution of his or her responsibilities.
- ✓ Prepare by reviewing financial reports, request for policy development or revisions and other materials prior to board meetings.

- ✓ Work from an agenda and submit topics for discussion in advance of the meeting whenever possible.
- ✓ Avoid actual conflicts of interest or acts that could be interpreted as conflicts of interest and avoid debate and voting on any matters in which the member may have a conflict of interest.

Nurturing a strong involved board will create a powerful ally and resource for the organization

Financial role

[The following section was adapted with permission from the Free Management Library website and was written by Carter McNamara.]

From a financial perspective, the Board of Directors should:

1.) **Govern the organization by broad policies and objectives**. The CEO and staff should formulate these policies and objectives. As stewards of an organization, boards must actively participate with staff in an overall planning process and assist in implementing the plan's goals.

2.) **Acquire sufficient resources for the operation of the organization and finance the services and products adequately.** One of the board's biggest responsibilities is to ensure sufficient resources to fulfill the organization's mission and planned goals. The board should work in partnership with the CEO and development staff, if any, to raise funds from the community.

3.) **Account to the public for the services and products of the organization and expenses incurred.** This includes providing fiscal accountability, approval of budgets, and formulating policies related to contracts from public or private sources. The board, in order to remain accountable to its donors, the public, private and public funders, and to safeguard its tax-exempt status, needs to be involved in developing the annual budget and ensure that proper financial controls are in place.

WHAT ROLE DOES THE BOARD PLAY IN PLANNING & BUDGETING?

1.) Rather than attempt to develop the plan, the board should focus on the quality of the plan. Boards should ask what information was used in planning, and require clearly stated assumptions about critical issues that face the organization and clearly stated strategies for dealing with these issues. It needs to ask and understand several questions:

a.) What will be accomplished?

b.) How will we know?

c.) Are these the right things to accomplish according to the plan?

d.) Why is this the right plan?

The board is buying a plan and a budget. It must be able to determine whether it is getting the plan that will meet the organization's needs.

2.) Once the board has "bought" the plan, it delegates management of the plan to staff. The board needs to monitor what it is getting for its money. This involves careful evaluation, oversight and monitoring of the activities and results achieved. To do a good job of monitoring, the board should be listening in the community for feedback and getting a second opinion of the quality of results achieved. Sometimes it is necessary to hire outside contractors to evaluate programs and to achieve a second opinion.

IMPORTANT ASSUMPTIONS ABOUT BOARD AND STAFF RELATIONS.

1.) A non-profit organization belongs to, is the responsibility of, with legal requirements, the Board of Directors not the Executive Director and/or the staff. All fiscal oversight, fiscal liability and the overall well being of a non-profit are placed in the hands of the Board by its charter, by-laws and other legal documents.

2.) No individual board member or officer has the authority to act on behalf of the Board of Directors in any matter concerning the organization or in any manner in regard to any staff member unless given that authority by the entire board. An Executive Committee can assume the powers of the Board if given that authority by the by-laws or by resolution passed by the Board.

3.) The Board of Directors has the authority to hire and dismiss the Executive Director. This authority may be delegated to an Executive Committee, but the Board of Directors must make final decisions. The hiring of other staff is the responsibility of the Executive Director and should not be interfered with in that capacity by the board. A personnel committee of the board may review those decisions.

4.) Decisions about the programs of the organization should be developed by the staff, but approved by the Board of Directors—perhaps by a Board committee.

5.) The Board should provide fiscal overview and annual audits with the assistance of the Executive Director and appropriate staff.

BOARD RESPONSIBILITY/AUTHORITY IN FINANCES

1.) The board of directors is fiscally responsible for the organization's well-being and existence. Therefore, it is the role to provide money, oversee the fiscal management and represent the organization to the community in regard to its financial status and organizational needs.

2.) The Board is responsible for developing, with staff assistance, appropriate financial goals and implementation strategies for fund raising campaigns and/or events, and fully participate in all campaigns (with a Development Committee).

3.) The Board should play a central role in the preparation and subsequent approval of an Annual Budget that is the basis for all financial determination for both income and expense items (with a Finance Committee).

4.) The staff is responsible for the day-to-day financial management, as determined by the Annual Budget. They should prepare and submit an Annual Budget to the Board or appropriate committee of the Board for approval.

5.) The staff should assist with and participate in the planning and implementation of all fund raising efforts with the Board, BUT not assume full or primary responsibility for attaining fund raising goals.

BOARD AND STAFF RESPONSIBILITIES

To help convey who does what regarding board and staff, the following activities are suggested to be done by board, staff or jointly. This document should be reviewed by board members to finalize who they would like to do what among board and staff members. (The original author of this document is unknown.)

Activity	Responsibility
PLANNING:	
Director the process of planning	Staff
Provide input to long range goals	Joint
Approve long range goals	Board
Formulate annual objectives	Staff
Approve annual objectives	Board
Prepare performance reports on achievement of goals and objectives	Staff
Monitor achievement of goals and objectives	Joint
PROGRAMMING:	
Assess stakeholder (customers, community) needs	Staff
Train volunteer leaders	Staff
Oversee evaluation of products, services and programs	Board
Maintain program records; prepare program reports	Staff
Prepare preliminary budget	Staff
Finalize and approve budget	Board
See that expenditures are within budget during the year	Staff
Solicit contributions in fundraising campaigns	Board
Organize fund raising campaigns	Staff
Approve expenditures outside authorized budget	Board
Insure annual audit of organization accounts	Board
PERSONNEL:	
Employ Chief Executive	Board
Direct work of staff	Staff
Hire and discharge staff member	Staff
Decision to add staff	Board
Settle discord among staff	Staff
COMMUNITY RELATIONS:	
Interpret organization to community	Board
Write news stories	Staff
Provide organization linkage with other organizations	Joint

BOARD COMMITTEES:	
Appoint committee members	Board
Call Committee Chair to urge her/him into action	Board
Promote attendance at Board/Committee meetings	Joint
Recruit new Board members	Board
Plan agenda for Board meetings	Joint
Take minutes at Board meetings	Joint
Plan and propose committee organization	Joint
Prepare exhibits, material and proposals for Board and Committees	Staff
Sign legal documents	Board
Follow-up to insure implementation of Board and Committee decisions	Staff
Settle clashes between Committees	Board

SHOULD STAFF CONTACT WITH THE BOARD BE RESTRICTED?

For Executive Directors, this issue can sometimes raise blood pressure faster than almost any other. Executive Directors often feel that independent board-staff contact undermines their authority, and creates the potential for staff to give misleading and undermining information to the board. Board members want to respect the authority of their CEO, but they also know that they can often serve best by meeting separately with staff on program or fundraising issues, and they value the independent viewpoint they can develop when not all their information is filtered through the executive director.

Restricting contact between board and staff usually results in suspicion on the part of the board and resentment from the staff. The following are suggested guidelines:

1.) There are no restrictions on contact, but the executive director must be informed about meetings. (example: a voice mail from the Bookkeeper saying, "I just wanted to let you know I'm meeting with the Board Treasurer next week to go over cash flow projections. Let me know if you have any concerns or things you want me to bring up.")

2.) Board members can request information and reports (such as another copy of the budget or last month's client statistics report), but may not request staff create reports not already prepared. New reports, or special reports are requested of the executive director.

3.) Personnel issues and grievances must go through the channels specified in the personnel policies. Board members should direct staff complaints to those channels.

4.) There should be a defined channel by which staff can raise concerns to the board about the way the executive director is running the organization. It has been suggested that such complaints and concerns be directed to the board president ONLY, and not to any other board member. As representatives of the public, the board needs to know if staff has serious concerns to raise, but it's only fair to the executive director AND to the board president for these to be handled in a defined way. The board president can choose to raise the concerns to the executive director, or to bring them to the board for investigation.

Source: Free Management Library, http://www.mapnp.org

Tips for better board meetings

Be prepared. Distribute materials at least a few days in advance so that members have a chance to review them.

Identify items that require board action. Board members should know whether they need to approve a committee recommendation, develop a proposal or policy, or whether information is simply included for their information.

Organize the agenda with the most important items coming first.

Include a proposed time schedule for each agenda item. Allow some extra time for unplanned discussion so that you can and do start and finish on time.

Have your meeting "ground rules" printed on your agenda. Important items such as working from the agenda, following Roberts Rules of Order, and allowing debate and challenge within meetings but supporting final resolutions at the conclusion of the meeting can be included.

Make sure that everyone is involved. Quieter members should be encouraged to present their views, and more enthusiastic members should not dominate the meeting.

Develop an annual calendar that includes important items such as development and approval of the annual budget, election of board members and officers, review of the Executive Director, appointment of committee chairs and the like.

Keep it interesting! A presentation from a consumer, or videotape of your proposed marketing program or a tour of the Web site of an organization that does a great job in an area of importance to your organization can add some variety to your meetings.

Internal controls

Learning objectives

Participants will be able to implement internal controls that safeguard assets and assure that resources are used according to the organization's mission.

Participants will be able to identify good business practices and how separation of duties affects their organization's internal controls.

Participant input

Have any of your organizations experienced financial losses or other problems from the misuse of assets that you can discuss with this group?

Are you are aware of financial losses that have occurred at other organizations resulting from internal theft or misuse of funds? Can you share that knowledge?

Presentation

Nothing beats good internal controls. They stand on guard 24/7, protecting assets, providing consistency and efficiency in procedures and sending reminders when things go wrong.

Internal controls are beneficial in many ways such as:

- ✓ They help employees work as team players
- ✓ They may protect the organization and its employees from false accusations and investigations.
- ✓ They are an effective method of catching unintentional errors.
- ✓ They are required by many funding sources.
- ✓ Systems with strong internal controls can produce more reliable data.
- ✓ Good internal controls make accounting systems more efficient.
- ✓ Good internal controls help assure that assets are used according to your mission.

To understand the value of internal controls we must understand how things can "go wrong". Improper transactions can include any of the following:

- ➢ Incoming moneys can be intercepted and not deposited into the organization's accounts. The greatest risk here is from unexpected items, e.g. where there's a donation without a prior pledge.

- ➢ Refunds can be generated and diverted by overpaying a bill or paying it twice.

- Kick backs—a personal payment to an employee or purchasing from or contracting with a particular vendor or contractor are a common form of fraud in the construction industry. They can also affect certain not-for-profit organizations.

- Check signatures can be forged and improper payments made. Banks aren't great about verifying signatures.

- Phony invoices can be generated and submitted for payment.

- Payroll checks can be prepared for employees who no longer work for the organization or for fictitious employees.

- Fund raising events often involve cash, and while much effort goes into planning a lovely event, internal controls may not be well planned. This is inherently difficult because each event is unique. This is an area where it is important to use internal controls as part of your planning process.

- Credit cards can be used for improper charges, or credits can be improperly issued.

- Investment accounts represent high risk because they are inactive and may not be carefully reviewed. This leads to the potential risk of withdrawals of principal or of investment income.

Impact of fraud

Fraud affects the organization and its staff and volunteers in multiple ways. There is the obvious financial effect. Resources that are intended to be used for a specific purpose are lost. There is also an emotional effect. A trust has been betrayed. There may also be an impact on potential donors or funders who are concerned about the problems that led to the loss of assets.

There's also a potential liability of the organization itself. As ironic as it seems, the organization and may be liable for inappropriate activities that are carried on by persons who served as "agents" of the organization. In one instance a group of doctors who formed a clinic to help indigent people with health-care delegated operating responsibility to others. The doctors were held liable when it was found that improper medical procedures were being performed and improper prescriptions were being issued.

Fraud grows! Fraud that isn't detected and dealt with properly almost always becomes bigger and more frequent. Investigation of fraud demonstrates that smaller and occasional improper activities turned into more frequent and larger ones.

Identifying the potential embezzler

Several things such as age, gender, race, or even education have little or no impact on fraud.

The only things that do foster fraud are integrity, financial pressures and opportunity.

Integrity varies greatly from individual to individual. The bad news is that the national association of certified fraud examiners estimates that only 5% of people are honest all of the time. If all of your employees are completely honest, then most of the rest of us are in big trouble!

Financial pressures are more a matter of perception than reality. People are affected much more by a change in their financial circumstances than the financial circumstances themselves. For example someone who experiences a large reduction in income due to theft, poor investments, loss of a spouse or medical costs may feel the pain of a changed lifestyle. This can increase pressure to "obtain additional resources".

Opportunity is the most important factor because it has the largest impact. More importantly, this is the only area you can do much about. Reducing opportunity reduces the possibility of loss from 95 percent of the population.

For these reasons, internal controls need to be a priority. You must deliver the message that there will be no tolerance of any fraud. Prosecution usually has a poor return on investment. Audit will deter others.

Based on your organization's resources and operations, you need to assess potential risks from activities such as the items above. For example if you have cash, medicine, food, or electronic instruments you need to consider the loss of these items. If you regularly receipt unexpected contributions or have special events that are paid for in cash, you need to develop appropriate procedures.

There are books written on internal controls and you could probably devote a huge portion of your staff's efforts to following all of the possible control procedures. We think it is far better to stick to the basics. Of course these vary for every organization and it is necessary to develop a specific plan for your organization.

Here are some procedures that you should consider for your list of key internal controls. Keep in mind these are designed both to separate the responsibilities of custody from record keeping for assets and also to set a high standard of integrity starting with top management.

- Management needs to demonstrate an attitude of integrity and commitment to competence—proper hiring and training practices, attention to compliance requirements such as completing INS forms and withholding authorizations. Provide training to support your commitment to give people the skills to do their job well.

- Have a written code of conduct that describes proper business practices and be sure that everyone abides by that code.

- Show no tolerance for improper practices. Even minor theft of assets should be addressed as a serious matter.

- Question unusual activities. Don't be hasty to accuse someone of wrongdoing but be sure you understand the activity.

- Develop a good budget and look at variances from that budget. Update the budget throughout the year as appropriate if you embark on new programs or expected funds do not materialize. When you do this, variances are red flags that deserve your attention.

- Your organization should have an audit committee that is independent from management and that has operations and financial expertise.

A proper separation of duties should exist

Generally, responsibilities for record keeping for assets and custody of those assets should be separated. Some examples to look for include:

- Does someone not involved with billing or accounting initially receive [customer payments] grant or contract or other installments and list them on a deposit ticket or separate place?

- Are checks stamped "for deposit only" as soon as they are received?

- Does the person who deposits receipts have record keeping responsibility for them?

- For a small staff, consider a bank locked box arrangement at a bank whereby payments go directly to the bank and are deposited. The bank will provide all information necessary for record keeping.

- Is the monthly bank statement initially received and its contents reviewed by someone not involved with the preparation of checks?

- When checks are prepared, are they submitted to the check signer with original invoices?

- Are invoices then canceled by marking them paid?

- Are checks sent out without being returned to the check preparer after signing?

- Do you have Fidelity bond coverage for employee dishonesty? (Use a carrier other than your general liability carrier to reduce the likelihood of counter suits.)

If your organization is heavily dependent on computer data:

- Regular backups should be made and some should be stored off-site.
- Backups should be checked to verify that they are working properly and are properly indexed.
- Anti-virus software should be used and should be updated regularly.
- Passwords should be used wherever appropriate.
- Your organization should have a policy for Internet and email use and probably even for on-the-job computer use. All policies should be included in the procedures manual.

This isn't a comprehensive listing of all procedures that could be appropriate for you. Hopefully these will get you off to a good start.

Policy manuals and other documentation

Learning objectives

Participants will learn the necessity for and value of documentation to assure consistent proper practices.

Participant will be able to recognize whether their current policies are appropriate.

Participant input

Based on our discussion of internal controls do you feel that you have good internal procedures?

Are your procedures well documented in an accounting procedures manual or other document?

Do you have a personnel policies manual?

Do you have a conflict of interest policy?

Do you have computer and Internet use policies?

Local Independent Living Organization

Accounting Policies Manual

This is a partial table of contents and some adapted excerpts from the accounting policies manual available from the Nonprofit Resource Center 301-987-0287 http://www.nonprofitresource.com/sampolicies.htm. Reprinted with permission.

LOCAL INDEPENDENT LIVING ORGANIZATION

Accounting Policies Manual

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INTRODUCTION

The following accounting manual is intended to provide an overview of the accounting policies and procedures applicable to the Local Independent Living Organization, which shall be referred to as "Local Independent Living Organization" or "the Organization" throughout this manual.

Local Independent Living Organization is incorporated in the state of [_____]. Local Independent Living Organization is exempt from federal income taxes under IRC Section [501(c)(3)] as a nonprofit corporation. Local Independent Living Organization's tax-exempt mission is to

> **[Insert the organization's mission statement or a statement of its tax-exempt purpose]**

This manual shall document the financial operations of the Organization. Its primary purpose is to formalize accounting policies and selected procedures for the accounting staff and to document internal controls.

The contents of this manual were approved as official policy of the Organization by the [Board of Directors]. All Local Independent Living Organization staff are bound by the policies herein, and any deviation from established policy is prohibited.

GENERAL POLICIES

ORGANIZATIONAL STRUCTURE

The Role of the Board of Directors

Local Independent Living Organization is governed by its Board of Directors, which is responsible for the oversight of the organization by:

1. Planning for the future
2. Establishing broad policies
3. Identifying and proactively dealing with emerging issues
4. Interpreting the organization's mission to the public
5. Soliciting prospective contributors
6. Contracting for the Executive Director

The board is responsible for hiring and periodically evaluating the organization's Executive Director, who shall be responsible for the day-to-day oversight and management of Local Independent Living Organization.

Committee Structure

The board of directors shall form committees in order to assist the board in fulfilling its responsibilities. These committees represent vehicles for parceling out the board's work to smaller groups, thereby removing the responsibility for evaluating all of the details of particular issues from the full board's consideration. Standing board-level committees of Local Independent Living Organization consist of the following:

1. Executive Committee
2. Finance Committee
3. Audit Committee
4. Nominating Committee
5. Program Committee with both with a death
6. Public Relations Committee
7. Government Affairs Committee
8. Development Committee

[list each standing committee]

Specific guidelines regarding the composition and election of the board of directors and committees are described in the organization's by-laws. However, roles of committees with direct responsibilities for the financial affairs of the organization are further described in this manual. These committees shall be referred to in appropriate sections of this manual.

Finance Committee Responsibilities

The Finance Committee is responsible for direction and oversight regarding the overall financial management of Local Independent Living Organization. Functions of the Finance Committee include:

1. Review and approval of the organization's annual budget (prepared by the staff)
2. Long-term financial planning
3. Establishment of investment policy and monitoring investment performance
4. Evaluation and approval of facilities decisions (i.e. leasing, purchasing property)
5. Monitoring actual vs. budgeted financial performance
6. Oversight of reserve funds

The review of the organization's financial statements shall not be limited to the finance committee, but shall involve the entire board of directors.

POLICIES ASSOCIATED WITH REVENUES AND CASH RECEIPTS

REVENUE

Revenue Recognition Policy

Local Independent Living Organization receives revenue from several types of transactions. Revenue from each of these types of transactions is recognized in the financial statements of Local Independent Living Organization in the following manner:

1. Grant income - Monthly accrual based on incurrence of allowable costs (for cost-reimbursement awards) or based on other terms of the award (for fixed price, unit-of-service, and other types of awards)

2. Rent income - Monthly accrual, based on the terms of each sublease

3. Periodical subscriptions and advertisements - Recognized as income when received (based on overall immateriality, no deferral of income is calculated)

4. Publications and product sales, mailing list rentals - As sold and shipped

5. Sponsorships - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income)

6. Contributions - Recognized as income when received, unless accompanied by restrictions or conditions (see the next section on contribution income)

Refunds

The following policies apply to refunds associated with revenue collected by Local Independent Living Organization:

Mailing List Rentals:
No refunds will be provided of list rental income unless extraordinary circumstances are demonstrated. Only the [Executive Director] may authorize such refunds.

Publications and Other Products:
Full refunds will be provided upon the return of a publication in undamaged (re-sellable) condition from the customer.

Security Deposits:
Tenant security deposits will be refunded in accordance with the specific terms of each tenant's sublease with Local Independent Living Organization

Financial Planning for Your Special Events

Here's some guidance for planning your next special event.

You will need to prepare financial projections for the event. Start with the total fund-raising goal that you have for the special event.

Your gross income will include any money you receive from attendees and also amounts paid by sponsors. It is often helpful to have one or two major sponsors and a handful of other sponsors provide support to help assure that the event will be a success.

Next, analyze the expenses that are necessary for that event. Be sure to include the following:

- ✓ Facility rental—this can be a major item so you should request a proposal to have an idea of these costs.
- ✓ Food and refreshments—this is very dependent on the number of people you expect to attend, which is very dependent on your estimate of attendance.
- ✓ Promotional material—again, it will be valuable to know total costs. You should request proposals from at least two providers.
- ✓ Stipends or awards to any special guests or presenters who will attend.
- ✓ Permits required for such an event.
- ✓ Transportation costs and travel expenses for people helping with the event.
- ✓ Prizes and incentives—can add excitement and encourage repeat attendance at future events.

Your board should be involved, and take the lead in pursuing sponsorships and promoting ticket sales.

When you have everything else in place, consider the cost of publicity for the event. You may be able to get some reduced rate promotion as a nonprofit but be sure that you have effective promotion for your event.

ng will not only help you carry out an event that is fun but financially well.

ancial statements

ectives

ill be able to identify what financial statements are required for to be in accordance with accounting principles generally accepted in the .

ill be able to describe the information each type of financial statement y and how to find the most pertinent information in financial statements.

nput

ole with your organization?

re financial statements or do you supervise or review their preparation?

e them as a board member or committee member?

other organizations that provide you with financial statements?

Understanding not-for-profit Financial Statements

profit organization that produces financial statements for external use e the following reports:

nce sheet (sometimes called a statement of financial position),

vities statement (sometimes called support, revenue, expenses and s in net assets),

flow statement and explanatory notes,

ary health and welfare organizations should also include the statement of nal expenses. The following information will help you understand each of ganization's financial statements.

sheet is a photograph of your financial situation at a point in time such as .

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Independent accountant's reports

If an independent accountant is involved, there will also be an accompanying letter that explains the level of responsibility that is being taken.

An **audit** report is associated with the most thorough level of verification that typically includes confirmation of accounts with outsiders and verification of computations.

A **compliance audit** is also a fairly expensive audit that will focus on verifying compliance with requirements of specific funding grants or contracts.

A **review** is less intensive. It would typically include analytic procedures such as checking normal relationships; for example, the relationship of loan interest to amounts owed and the payroll taxes to payroll as well as comparisons of account balances or activity to prior years and to budgets.

A **compilation** involves the least oversight. The independent accountant needs only to put information received into a proper financial statement format. No further investigation or analytic procedures are required. Regardless of the type of service rendered, the independent accountant will look further if information seems wrong.

What to look for when you review financial statements

What are some of the things that you should look for in reviewing financial statements?

- ✓ The surplus or deficit is a good starting point. Not-for-profit organizations can have either in any year, but repeating deficits or results that are very different from budgets are cause for concern.

Other important topics to consider as part of your financial review

Donor restrictions

Net asset classes should be used to reflect donor restrictions including temporary restrictions that will be removed by events or the passage of time, and permanent restrictions such as donor established permanent endowment funds.

Board designations

Only donors can impose restrictions. The board may designate unrestricted assets to be used for a specific purpose. Unlike donor restrictions, board designations can be changed at the discretion of the governing board.

Donor conditions

Conditions imposed on contributions by donors, and which are outside the control of the organization, for example matching requirements, mean that contributions will not be recorded. However, in the absence of conditions, contributions are recorded even if they are due to be paid in a future year.

Timeliness

The date financial information is available will depend on the complexity of the organization and the need for outside information such as invoices from suppliers and reports from investment managers. But as a general rule, information prepared by the organization should be available not more than 4-12 weeks after the balance sheet date.

Investment policy

If the organization has amounts that can be invested, there should be an investment policy. It should be sound and prudent. It should take into account how long money can be invested. For example, funds that can only be invested from weeks to a few months should only be in money-market funds; whereas endowment or retirement plan investments should probably contain some combination of stocks and bonds. Involve board members or outsiders with financial expertise to develop the investment policy. Most important, make sure that the policy is followed.

Functional expenses

Expenses should be reported by the function they accomplish. Each major program can be a function and together, these are referred to as program expenses. Costs of operating the organization should be classified as management and general whereas costs to bring in contributions and donations should be classified as fund-raising. Some organizations also have a membership development expenses.

Management in general, fund-raising and membership development are all referred to as supporting services.

Benchmarks

Learning objectives

Participants will be able to identify key ratios, including program vs. supporting services ratios and ratios regarding liquidity, i.e., the ability to pay bills.

Participant input

Do you know what portion of your total revenue is spent on program services?

Do you have any concerns about what goes into the supporting services category?

Do you know how ratios for your agency compare to other agencies?

Presentation

There are a few important ratios and benchmarks that will help you understand your own financial statements. They include:

Program services %. Dividing program services by total expenses will tell you what portion of your expenditures are used to provide direct service. Dividing program services by total support and revenue will give insight into how much of your total budget goes into program services. Generally, 70%-85% or more is good. However, this depends on the nature of the organization. Organizations must spend at least 75% of their total revenue each year to be a part of the combined federal United Way campaign.

Fund raising costs divided by fund raising revenue gives insight into the **cost of raising monies**. This ratio can be examined for a specific event and also for your entire fundraising activity. As you might imagine, this ratio varies widely. Charity watchdog agencies generally suggest that fund raising expenses not exceed 35% of the revenue they produce. For purposes of this analysis, direct costs would not be treated as fund-raising expenses (for example meal costs for a fund-raising dinner).

The **current ratio** is current assets divided by current liabilities. This ratio tells about the ability of the organization to pay its current bills. Generally this ratio should be not less than 1/1.

The National Charities Information Bureau and the American Institute of Philanthropy as well as the Council of Better Business Bureaus provide benchmarks for typical charities. They agree that program services should be at least 60% of your expenses and that fund raising should not exceed 35% of donations.

Large New York City based charities included in the New York Better Business Bureau averages spend 72.4% of their income on program services and 13% of their income on management and general. They also spend about 16% of donations on fund raising.

Aging of amounts owed to your organization

If you receive fees for services, the age of receivables due to your organization is important. The older these get, the less likely they are to be collected. Watch the trends here; be sure there is a policy for collection and that it is followed.

Compliance with tax filing requirements

Be sure that annual filings are complete and consider reviewing your annual filing with IRS. It is a public inspection document and anyone who wishes can see it. Therefore, it is important to become familiar with its contents.

Some filings that may be important include:

- Federal form 990 and 990 Schedule A for all organizations eligible to receive contributions.
- State filing with your attorney general.
- Federal form 990T and possibly also a state form for organizations that carry on unrelated business activities.

Federal form 5500 for organizations that have an employer-funded qualified retirement plan or an employee benefits plan.

Accounting for contributions

Learning objectives

Participants will be able to differentiate between donor, permanent and temporary, restrictions; board designations; contingent gifts; and intentions to give.

Participants will be able to account for various types of contributions and to understand how to interpret financial statement information about contributions.

Participant input

Does your organization receive contributions?

Have you recently planned or are you planning capital or other major campaigns?

Does your organization carry on fund-raising events for specific purposes?

Presentation

Rights and responsibilities of donors and the organizations they contribute to are not complicated. What complicates understanding rights and responsibilities is the variety of arrangements to which contributions can be subjected.

Conditions, restrictions (time & purpose), suggestions, requirements, and designations all enter into the relationship between donors and the charities they contribute to. In addition, intentions to give are different from promises to give, and promises to give with reliance by the donee are different from promises without reliance.

Let's start with some definitions.

Conditional promises to give—here the donor is not bound until the occurrence of some future uncertain event. As an example, the donor may require that the donee maintain matching funds or that a school obtain a charter from the State. There is no obligation here until and unless the event comes to pass. Conditional promises are not recorded as income or assets although it may be disclosed in the donee organization's financial statement footnotes.

Restrictions are donor stipulations about how or when money can be used or when it will be given to the organization. Promises to pay can be subject to time and purpose restrictions. Once that is the case, all restrictions must be met. The donee must decide whether they can and are willing to comply with donor restrictions, because accepting the restricted gift is a commitment to comply with the restriction. If the organization later finds that it cannot comply, contributions must be returned unless the donor agrees to modify the restriction. Restricted contributions are recorded as soon as the donor

makes a firm commitment that is accepted by the organization. Restricted contribution commitments are recorded as temporarily or permanently restricted net assets depending on whether donor restrictions can be met by the passage of time or the occurrence of events. Restrictions that the gift be kept permanently, for example, a permanent endowment, are recorded as permanently restricted net assets. Promises to pay with restrictions, either about when the money can be used or when it will be given to the organization, are recorded currently. Amounts to be paid within one year are recorded at full value. Amounts to be paid after one year are recorded at net present value. In all cases, contribution commitments are recorded subject to expected collectibility.

Restrictions on income—The Uniform Management of Institutional Funds Act (which most all states have adopted) governs the use of earnings on contributions. Generally, for corporations, income should not be subject to restrictions imposed by the donee. That includes all types of investment income such as interest, dividends, realized & unrealized gains. Some organizations adopt a "prudent" policy to retain a portion of the earnings to maintain its purchasing power. Donors can include restrictions about the use of income that override normal state law requirements. For example, a donor may give a gift subject to restrictions that the principal be maintained permanently and that any capital gains or losses be retained, and that interest or dividends be used for scholarships. Alternatively, a donor could require that earnings be retained until the fund reaches a certain level, at which point income could be used for specific or general organizational purposes.

Requirements may be included with a contribution without causing either a condition or a restriction. For example, the requirement that the recipient organization provide a report of how the money was used and recommendations for future services is neither a future uncertain event (it is within the control of the organization), nor a restriction.

Suggestions by donors do not carry the force of conditions or restrictions. If the donor suggests that the contribution be used for playground equipment or "another appropriate purpose as determined by the Board," no restriction exists. The final decision is left to the Board of the recipient organization.

Reliance by a donee organization is important, if not necessary, for the donee to have any claim against amounts donors have promised. In fact, without reliance on the part of the charity, a donor's promise to pay is unilateral and may be reversed. When a donor makes an unconditional commitment to contribute, that the donor acknowledges and confirms that they are relying on and taking action on the commitment, the donee will have certain rights to collect on that promise. Clearly this is an important legal concept and should be explored with each organization' s legal counsel. In addition to legal "rights and responsibilities", considerations about donor relations may be an issue. Interestingly, once a donor makes a payment that is not subject to conditions or restrictions, the donor has virtually no control over how or when the gift is used.

Intentions to give can be expressed by a donor. For example, the donor may state, "I am going to make you a beneficiary of my will". This unilateral statement contains uncertainties (such as when, and how much, and whether the donor will change their mind). Intentions to give should not be recorded as assets by the organization. They do not even require disclosure (in financial statements footnotes) although disclosure may be appropriate in some circumstances.

Designations can be imposed by the Board. Designations can be similar to donor, temporary or permanent, time or purpose restrictions. The big difference is that the Board or a successor can change these designations. The Board may designate that resources be held to produce income for scholarships. In this case, the principal is treated like a permanently restricted contribution and is frequently referred to as a quasi-endowment. The Board may also designate that funds be set aside to purchase audiovisual equipment. In either case, these designations can be revised or eliminated.

Conclusion

Donors and charities need to be thoughtful and thorough about what arrangement they wish to put in place. The level of commitment to give and the nature of restrictions on gifts as well as on the income they generate should be clearly thought out and well-documented. Legal counsel can be very helpful in documenting the intentions of the donor and the charities they support.

This chart summarizes typical reporting and disclosure requirements for contribution commitments.

Type of Commitment	Report	Footnote Disclosure
Subject to conditions	No	OK to Disclose
Donor Time restriction	Yes	Yes
Donor Purpose restriction	Yes	Yes
Donor suggestion	Yes (as unrestricted)	Yes
Donor intention to give	No	No
Board designation	Yes	Yes

Illustration of a balance sheet presentation of net assets with restrictions

Net Assets

Unrestricted:
  Operating
  Board Designated for Scholarships
  Board Designated Quasi-endowment

Temporarily Restricted:
  Held to Produce Income for Scholarships

Permanently Restricted – Endowment
TOTAL NET ASSETS

Records retention

Learning objectives

Participants will be able to name the general rules for records retention.

Participants will be able to identify the requirements of governmental agencies and other funders for special records retention.

Participant input

Do you have written records retention policies?

Do you follow your records retention policies consistently including destroying documents after their retention time?

Do you store all of your records on site?

What are your procedures for destroying records?

Do you document destruction?

Presentation

Record-keeping - Records Retention Principles and Particulars

Records retention for not-for-profit organization is affected by many requirements and factors, not the least of which is common sense and closet space.

The most important general considerations are consistency and rationale. Consistency comes with a policy that is written and communicated. Your policy will demonstrate that your procedures are rational if they are based on compliance with requirements of governmental and other funding agencies, of IRS and state agencies that you file annual reports with, and of the public disclosure requirements for your application for exempt status, and annual federal filings.

If you receive a request for records from a funder, tax authority, or through a subpoena, and those records are not available, their disposition or destruction will be viewed more positively if it is done according to a sound written policy.

Excessive records are more likely to produce problems than solutions in a court proceeding. However, it can be a criminal act to destroy records once litigation, that might be influenced by those records, commences or even becomes a threat.

Your policy may even cover standards for external communications including e-mails and information on your Web site. Frequently these "one-way" communications can be unclear and misleading. At one extreme, all outgoing e-mail and similar documents can be subject to a policy of review and approval before they are sent. A less extreme measure would be to set specific standards for what should be included in and excluded from these communications.

During the period they are retained, paper and electronic records should be stored in a logical and organized fashion so that they are easily retrievable.

Your policy should not only document how long you retain records but how they will be destroyed or disposed of, and even what documentation to keep regarding the destruction.

Your policy should cover storage of electronic as well as paper records. Of course, there should be logical relationships between the policies for each.

Your policy could also create a timetable for the production of key reports.

Consider the following useful lives:

Accident reports/claims (settled cases).....7 Years
Accounts payable ledgers and schedules.....7 Years
Accounts receivable ledgers and schedules..7 Years
Audit reports of accountants.....Permanent
Bank reconciliations.....2 Years
Bank Statements.....3 Years
Chart of Accounts.....Permanent
Checks (cancelled but see exception below)..7 Years
Checks (cancelled for important payments, i.e., taxes, purchases of property, special, contract, etc.) (checks should by filed with the papers pertaining to the underlying transaction).....Permanent
Contracts, mortgages, notes and leases:
  Expired.....7 Years
  Still in effect.....Permanent
Correspondence:
  General.....2 Years
  Legal and important matters only.....Permanent
  Routine with customers and/or vendors.....2 Years
Deeds, mortgages and bills of sales.....Permanent
Depreciation schedules.....Permanent
Duplicate deposit slips.....2 Years
Employment applications.....3 Years
Employee personal records(after termination).3 Years

Expense analyses/expense
distribution schedule.....7 Years
Financial statements:
Year end.....Permanent
Other.....Optional
Garnishments.....7 Years
General ledgers
Insurance policies (expired).....3 Years
Insurance records, current accident reports,
claims, policies, etc.....Permanent
Internal audit reports (in some situations longer
retention periods may be desirable).....3 Years
Internal reports (miscellaneous).....3 Years
Invoices to customers.....3 Years
Invoices from vendors.....7 Years
Journals.....Permanent
Minute books of directors and stockholders,
including by-laws and charter.....Permanent
Notes receivable ledgers and schedules.....7 Years
Payroll records and summaries, including
payments to pensioners.....7 Years
Personnel records (terminated).....7 Years
Petty cash vouchers .....3 Years
Property appraisals by outside appraisers.....Permanent
Property records - including costs, depreciation
reserves, end-of-year trial balances,
depreciation schedules, blueprints
and plans.....Permanent
Purchase orders:
Purchasing department copy.....7 Years
Other copies.....1 Year
Retirement and pension records.....Permanent
Requisitions.....1 Year
Sales records.....7 Years
Subsidiary ledgers.....7 Years
Tax returns and worksheets, examination
reports, revenue agents' and other
documents relating to determination
of income tax liability.....Permanent
Time sheets/cards/books.....7 Years
Trademark registrations and copyrights.....Permanent
Training manuals.....Permanent

Vouchers for payments to vendors, employees,
etc. (including allowances and reimbursement

of employees, officers, etc. for travel and entertainment expenses).....7 Years

Withholding tax statements.....7 Years

Bs sure to review your policy with your corporate legal counsel.

Use of the internet to improve efficiency and increase access to resources

Learning objectives

Participants will discover how the Internet can be used to help meet objectives of their organization.

Participants will be able to name the most efficient and effective uses of the Internet.

Participant input

Is e-mail an important part of your communications? How is used for administration? How is it used for programs?

Do you have a Web site? If so, how does it help your organization?

What types of research do you do on the Internet?

Do you purchase goods using Internet?

Do you solicit contributions or volunteer assistance using the Internet?

Do you post job openings using Internet?

Presentation

Getting *Money* through the Internet

Fund-raising on the Internet

Charities are soliciting contributions through the Internet in a variety of ways. Some charities have Web sites that automatically accept contributions through an immediate charge to the donor's credit card or through an electronic transfer. Other charities use a "charity portal" that will provide the same automatic service on behalf of the charity. The charity portal will also serve many other charities in the same way.

A less sophisticated procedure allows the potential donor to fill out an on-screen commitment to donate and transmit it directly to the charity. The charity can execute the credit card authorization or bill the donor when the form is received.

Another very simple procedure is to allow the donor to print and complete an on-screen contribution form. The form is then sent to the charity for processing.

Charities have had mixed results with Internet solicitations. Advantages include low cost and the ability to access more people. But the disadvantages include difficulties with getting your site noticed, and the uncertainties because of lack of guidance from IRS, state tax departments and state attorneys general.

Other ways charities get money through the Internet

Selling merchandise - Some charities sell merchandise on the Internet through their own Web sites or through other Web sites they have set up for distribution. This is somewhat more effective because charities with unique items can differentiate themselves. Once again, there can be difficulty getting noticed. Also, selling merchandise creates even more uncertainties about sales tax implications and the necessity to register and file in states where charities are selling merchandise.

Online auctions - Some charities have turned to an Internet version of the popular fund-raising auction. No great success stories on this one! While online auctions have certainly gained some acceptance, this is a difficult area to get people involved in. A successful online auction may benefit from having some unique auction items, and will need to be very well promoted.

Affinity programs - Charities have continued to earn revenues from affinity programs such as charge cards. This can be promoted on a charity's Web site but the charity will face a lot of competition from other nonprofits and commercial organizations soliciting credit card business with offers of various premiums.

Memberships - Charities have been effective in renewing memberships and somewhat less effective in signing up the new members. Your Web site can be a good venue for outlining membership benefits and simplifying the sign up process.

Links to for-profit organizations sites can generate revenue but may also result in Unrelated Business Income taxation. UBIT is not an automatic result. The federal regulations on Sponsorships identify circumstances that result in taxable advertising and those that are considered nontaxable sponsorships, and should be used for guidance here. Linking to the site of a "disqualified person" could be considered an act of self-dealing subject to excise taxes.

Some **online shopping sites** allow customers to designate a portion of their purchases to charity. For information on this and also on online event-management and auction services, as well as on companies that process online donations, go to: http://www.nonprofitmatrix.com.

Getting *Information* through the Internet

Getting information on the Internet is a much more predictable and advantageous process than getting money on the Internet. For example, all sorts of **research** can be and is performed by charities including research about the population being served by the charity and best practices in reaching and serving clients, and in administering your agency.

You need a good search engine. Everyone has their pick. A few you can try include:

http://www.about.com

http://www.alltheweb.com/

http://www.excite

http://www.google.com/

http://www.askjeeves.com

http://www.altavista.com

http://www.yahoo.com

All are good; find your favorite!

Charities can get **grant writing** help on the Internet. There is information about grantmakers and the initiatives that they wish to fund, and all sorts of information about the grant writing process itself. For example, the Grantsmanship Center, the Foundation Center, fund-raising.com, grantmatch.com, and others provide help with grant writing. Some organizations accept grant applications online including the National Science Foundation – http://www.nsf.gov/cgi-bin/getpub?gpg and AOL Time Warner at http://www.aoltimewarnerfoundation.org/grants/grants.html.

For examples of proposals and information on proposal writing go to the Foundation Center Web site page http://www.fdncenter.org/onlib/faqs/faq.html.
Any discussion of charities' use of the Internet would be incomplete without including information about how **communication** has been improved with e-mail and the Internet. E-mail and news groups allow you to stay in touch with peers, consumers, volunteers, board members and others. For example, the Rochester, NY area Big Brothers - Big Sisters counselors recently shared ideas about how to help the "Littles" deal with their fears and uncertainty over the September 11th attacks.

Some appropriate sites for news groups rolled into your organization are: http://www.liszt.com, http://www.tile.net, and http://www.dejanews.com.

Outcome measurement has been a very important topic recently. All charities are being required to provide more information about the outcomes from the services they provide. Defining and measuring outcomes is a fairly new process for most charities. Internet sites contain information about the process including specific procedures followed by peer agencies. In addition, some sites provide online software to facilitate outcome measurement. See page___58__ for examples.

Surveys -It would probably be difficult to attract many people to your site for the purpose of filling out a survey. However, your regular volunteers, donors, consumers, and others may be willing to take a few extra minutes to fill out an online survey about any of a variety of topics such as the usefulness of your Web site, their experience as volunteers, or educational programs they would find helpful.

Getting *Merchandise* on the Internet

Purchasing is a process that is easier on the Internet. You have access to more stuff, you can more easily compare prices, and you can order merchandise when it is convenient to you. This is another area where the Internet offers a very clear advantage to charities. If you want to patronize your local businesses, you will probably be surprised at how many of the companies you already purchase from have an Internet presence. If you are not already using the Internet for purchasing you need to try a few purchasing sites like Amazon.com for books and electronics and http://www.Staples.com or http://www.officemax.com/ for office supplies, and CDW.com for computer-related purchases.

You may also qualify for **donated free merchandise** on the Internet. There are a number of sites that provide free in-kind items to charities. They typically accept and acknowledge donations from corporations with excess inventory.

The Red Cross with its very well organized Web site for current information and for giving also facilitates in-kind contributions to charities. Details can be found at http://www.redcross.org/sponsors/corporatelist.html.

NAEIR, the **N**ational **A**ssociation for the **E**xchange of **I**ndustrial **R**esources, has been in the equipment giving business since the '70s. Its web site lists the total value of business donations to charities facilitated through them. Visit http://www.naeir.org/.

One of the several sites that facilitates donation of computers for education is http://www.kidsource.com/kidsource/pages/Donation.html.

Getting *It Done* in the Internet

Some organizations found that they can actually **deliver** services on the Internet. For example, educational programs delivered through the Internet allow flexibility in the timing of delivering educational programs.

In addition, you can perform some of your **administration** using the Internet. Application Service Providers (ASPs) have gained quite a bit of popularity. These online programs can be used for your accounting, donor tracking, database management and other important functions. Accounting systems such as QuickBooks Online, Mirasoft or Net Ledger can facilitate your accounting without the upfront cost of the program. In addition, if you have multiple locations and need to enter information from multiple sites at one time you can do that with an online general ledger. For donor tracking, you can look to online providers of donor tracking software including Fund a Medical, eTapestry, or DonorLinkIT.

Online board meetings - With more demands on everyone's time, online board meetings are getting attention. However, the legal definition of "meeting" may prohibit taking action by e-mail or other electronic means. As technology continues to improve and as laws are revised, this procedure is likely to become more common. In the meantime, electronic communications can be used to address issues quickly and formal meetings can be used to approve decisions that are made.

Getting *The Word Out* on the Internet

Promoting special events - Your Web site can be a good venue for providing information about special events. However, don't expect people to search out your Web site in a timely fashion. You need to use another means such as e-mail, snail mail, telephone, faxes or the like to make them aware of your events and your Web site to provide details.

Advocacy is already benefiting from the power of the Internet. The ability to communicate in a cost-effective way is particularly useful for advocacy. This can be particularly effective when you want to provide information about proposed legislation. E-mail alerts can advise your constituents about the issue and its urgency and the specifics of communicating with your representatives. Your Web site can contain additional detail about the issue at hand. This is a one-way communication requiring special skills to get the message across completely and accurately.

www.LocusPocus.net is a Web site that allows an advocacy organization to recruit and mobilize members via the Internet. Their service allows a group to send customized, action information to individual members with links, faxes and e-mails to contact appropriate companies or elected officials. LocusPocus powers Environmental Defense's online infrastructure.

Lobbying - The strong prohibitions against involvement with political candidates or parties strongly suggest that linking to a political party or candidate's Web site would be a violation serious enough to jeopardize exempt status. Even linking to a site that is linked to a political party's or candidate's site raises possible issues.

You need to adhere to the same lobbying rules that apply to your organization generally. Current rules impose sanctions when lobbying is a substantial part of an organization's activities. What is substantial in cyberspace?

In spite of all of the concerns and potential for violation, the Internet can be a great help in doing permitted lobbying. Legislation that affects your organization and those you serve is an appropriate way to direct some of your efforts and spend some of your money. Self-defense lobbying is allowable because this involves issues affecting the existence of the organization itself or its tax exempt status. Certain voter education activities are also permitted but activities must be non-partisan. For example, under certain circumstances you can publish voting records or responses to questionnaires without opinions or bias and without focus on an election. This type of education can be done very effectively with your Web site.

What the legislators think - You are probably aware that the IRS solicited comments on Internet use by charities. They specifically requested input on lobbying, advocacy, product sales, commissions and fees to charities, and unrelated business activities. To date the IRS has not issued any guidance. The 2002 exempt organization continuing education program has been released and does not contain any information on this topic so we're not sure when information will be available.

The IRS did approve an Internet donation program that allowed Philanthropic Research, Inc. to set up a virtual donor advised fund. This organization is the sponsor of Guidestar—a very popular site that has formed 990 and other information on most charities that are registered with IRS, so it is pretty well connected. Clearly the IRS acknowledges that donors and charities will do business on the Internet so we should expect some guidance enough to distant future.

The AICPA submitted comments to IRS on this topic. Comments were developed by the Taxation of Internet Services Task Force, and approved by the Exempt Organization Technical Resource Panel, and the Tax Executive Committee. Some of its conclusions were that, this is a different form of communication for activities that have existed and for which adequate tax laws exist and only need to be interpreted in this new context.

Information about the attorneys general of the various states can be obtained from an organization called the National Association of State Charity Officials. Their Web site, http://www.nasconet.org, includes links to each state attorney general's Web site, and information about their position on registration for Internet solicitors. Generally speaking if your Web site solicits contributions in their state at a level requiring registration, you need to register each affected state.

Getting *Help* on the Internet

You can even get help from potential employees and volunteers through the Internet.

Hiring employees - Your Web site can be used to provide information about employment with your organization. Information can be very general describing your organization's mission, location, size and the like, or it can provide more detailed information about the specific requirements of positions you are trying to fill. Your Web site can explain the procedures the candidate must follow to apply for employment with your organization or even allow a candidate to complete and electronically transmit an application for employment.

You can also **find volunteers** using the Internet. You can do this through your own Web site by having an area for volunteers and explaining the services you need and the time commitment that is expected. You can also use a volunteer portal to solicit volunteers. This can be especially effective if the services you require do not need to be provided on-site.

What *is* working on the Web, What *isn't*, and Why

Some of the above have been really successful; others have yielded mixed results. Reports from charities who have tried to "get it" on the Web indicate the following:

Getting Money - This is always difficult; you can do a great job of explaining your service and your needs on your Web site, but if no one visits it, donations, sales and other revenue will not result. Members will visit but only if reminded. Others may be prompted to visit once but won't repeat their visits unless you give them a reason to.

Getting Information - If you are not doing this you are missing the boat. The ability to find information about best practices in service and administration, the ability to do research, and locate demographic information is readily available. Find a good search engine and you will be overwhelmed with information. Remember though, that there are virtually no ground rules for putting information on the Internet, so you have additional responsibilities to check the validity of important information that comes from the Internet.

Getting Merchandise – Again, a no-brainer! It is just plain easier to procure some things over the Internet. Commonly available items can be competitively price when shopped over the Internet, and unique and unusual items can be found more easily by typing a few words than by going from store to store.

Getting It Done - This depends a lot on the nature of your organization. Some educational programs are very well-suited for your Web site; others are not. Online board meetings are growing in popularity, but are anything but mainstream at this point. Application service providers (software on the Internet) are still subject to the risk that

your provider may go out of business and leave your organization scrambling to reorganize your information. However, this industry is maturing and many of us are and virtually all of us will be, using Internet-based software in the not-too-distant future.

Getting the Word out - If you are doing lobbying or advocacy, you can't ignore the power of the Internet. It can't and won't replace other means of communication but it is an excellent supplement that seems destined to grow in acceptance, but only if you are proactive. People will not come looking for your message!

Getting Help - Mixed results here. Some charities are getting volunteer help through the Internet. Some charities are using their Web site to promote employment. But, as stated above, you need to be proactive. Not many candidates will search out your Web site without initial communications from you (traditional help wanted postings).

Best practices by charities who are already *Getting It* on the Internet

Here are a few Web sites you can visit to see good examples of many of the activities listed above.

Big Brothers Big Sisters of America -http://bbbsa.org/ Web site signs up volunteers for local organizations, facilitates contributions, and directs visitors to their partnering programs.

Points of Light Foundation - http://pointsoflight.org/ facilitates local volunteerism, has an online auction where you can donate or bid on items, and an awards/recognition program.

Habitat for Humanity - http://www.habitat.org/ allows visitors to donate online, volunteer services, or apply for a job, from a section that is updated daily with current postings, and allows you to buy books, clothing, pins and gifts from their online store.

Mercy Corps International - http://www.mercycorps.org has a very sharp "flash" site with information about the crisis in Afghanistan, a section for donating and another for purchasing books.

Alzheimer's Association - http://www.alz.org has excellent educational information about Alzheimer's and online donation capabilities.

The Arthritis Foundation - http://www.arthritis.org/ has online educational information and a store where you can purchase books and other educational materials. The site is very easy to scroll through and does facilitate online donations. The site also allows you to sign up as an advocate and provides information on the organization's legislative priorities and the process for contacting your legislators. Visitors can also sign up for a chance to win a spa. This encourages registration.

Ronald McDonald House Charities - http://www.rmhc.org/ allows organizations to apply for grants, donors to give, and even allows you to plan your trip to ensure that you will be able to find a local MacDonald's restaurant.

Mothers Against Drunk Driving - http://www.rmhc.org/ site includes several articles documenting tragedies associated with drunk driving. The site also allows you to make online donations and to send an e-mail to find out about volunteer opportunities. Also, the site has a full page on advocacy including an outline of issues and positions and guides to Congress and to state legislatures.

National Council on Aging - http://www.ncoa.org/ has a very clean site with a conference planner and members as well as visitors sections. Its advocacy section allows you to click on your state to get contact information for your legislators. The visitors' center facilitates memberships.

Other good examples Web sites

Getting Money

Fund-raising guidance is available from the foundation center at http://www.fdncenter.org or, for a charity portal, consider http://www.charitymall.com, http://www.charitableway.com or http://www.charitablegift.com.

For information about shopping sites where customers can designate a portion of the purchase to charity go to http://www.nonprofitmatrix.com.
For online stores doing sales look at PBS http://www.pbs.org, or http://www.iGive.com.

There are also some helpful publications including "Fund-raising on the Internet," a Jossey Bass publication released in November 2001 and the "Nonprofit Guide to the Internet: How to Survive and Thrive," published by John Wiley & Sons.

Getting Information

For grant writing help visit a project of the Americorps program http://www.techportal.org.

Guidestar – http://www.guidestar.org with its database of 620,000 charities is also a useful resource for information on giving.

Getting It Done

For tracking your donors you can download free database software Ebase at http://www.techrocks.org or look at the online or regular software version of FundaMental from http://www.3rdsector.net.

Getting the Word out!

The American Cancer Society and the American Heart Association both have Web sites with lots of educational content. Visit them at http://www.cancer.org and http://www.americanheart.org.

Net action provides a Web site that shows nonprofits how to educate people about a cause and how to prompt them to take action. A training course called the Virtual Activist is available at their web site http://www.netaction.org.

Getting Help

For additional help on developing an online volunteer program go to http://www.servicelesder.org/vv.

Measuring Outcomes

Learning objectives

Participants will learn how important measuring outcomes is for their organizations.

Participants will be able to define core concepts including inputs, outputs and outcomes.

Participants will be able to link program mission and outcomes.

Participants will be able to identify various resources that can be used for measuring outcomes.

Participants will be able to describe how processes can be continually improved using outcome measurement.

Participant input

Have any funding agencies requested information from you on outcomes?

Has there been a trend in requests for information about outcomes?

How do you determine budget objectives for a program? How you know that you have achieved those budget objectives? How do you communicate those achievements to your staff, your funders and your board?

Presentation

Continuous Process Improvement Using Performance Measures

Einstein said that "not everything that counts can be counted and not everything that can be counted counts".

The objective of outcome measurement and monitoring is continuous improvement in the delivery of appropriate services. The efficiency of service delivery, satisfaction with services, stability and continued funding are all important and must be measured.

Why should I measure?

Outcome measurement is here to stay! The United Way of America has published a manual on the topic, many national organizations like the Girl Scouts of the USA, Big Brothers Big Sisters, the YMCA of the USA, Goodwill Industries and others have all been involved in outcome measurement and have provided resources to local agencies about outcome measurement. More importantly, funders are becoming increasingly

aware of the value of outcome measurement. This ensures that to some extent, funding will be affected by outcome measurement.

Outcome measurement focuses on the intended results of programs. Therefore, it provides useful information to continuously enhance programs to be sure that program objectives are being met.

Outcome measurement demonstrates your desire for continuous improvement. This can translate to consumer satisfaction, staff motivation, volunteer support, and funder as well as community recognition.

What should I measure?

The answer is based on the objectives of the services you are providing.

Measurements should be directed to outcomes—what a program accomplishes. The number of classes attended would normally be an output not an outcome. Skills acquired or employment that results from these classes would be an outcome.

Measure the denominator. One thing we have learned about measuring results is that the wrong things are frequently measured. This is because the big picture of need is not always focused on. Most human service organizations are experts in the services they provide but not in the overall need of the population. Sufficient time and study must be devoted to analysis of the population and its needs to develop a proper analysis of how any agency's service fits into the big picture.

Measuring results is much more meaningful in the context of the needs of the population. As an example, an organization may be very effective in providing services to people seeking accessible housing. However, the real problem may lie with a housing authority which is not fairly applying its Section 8 program. Armed with this knowledge, there may be greater focus on housing advocacy programs and also more emphasis on communicating to consumers how they can speak up against inequities.

How often should I measure and for how long?

Measuring and monitoring does not always have to be continuous but continuous improvement cannot happen without an ongoing measurement process.

What specific kinds of things should be measured?

Remember that the focus is on outcomes—not on outputs. Outcomes are about the mission.

Outcomes are changes experienced by participants such as increased knowledge, skills or access to preferred choices, and by communities such as increased options for people with disabilities, improved accessibility and better informed public officials.

Outcomes could include things like:

- Increased knowledge about negotiating accessible transportation
- Securing an accessible apartment
- Ability to reside in an independent setting
- Satisfaction by the consumer and/or the consumer's family
- Improved health through self-advocacy with medical professionals
- Changes in functional status, i.e. no longer in an institution
- Skills improved—employable, has interview skills, is working
- Improved self-confidence, working, seeking work
- Increase in the number of curb cuts within a municipality
- Increase in the number of accessible polling places

Who is involved in the measurement process?

The list above makes it clear that the measuring process can involve not only your consumers, but also their families, health providers, employers, teachers, public officials, and others. Also, measurement can occur during, shortly after, and well after services are delivered.

The measurement process itself can include a follow-up survey of consumers and their families, or their teachers or supervisors, and various community leaders or officials. Focus groups can also be used.

What standards are outcomes measured against?

Benchmarks should be set for each measure. Be sure to select criteria that will show relationships between the services provided and the outcomes you are measuring.

Usually you'll need to have a fair amount of experience with a particular program before you can develop appropriate measures. It is probably a good idea to develop possible outcome measures as you prepare a program budget and narrative. The insight you gain with actual program operations will help you determine whether those measures are available and appropriate. Also, experience with observing outcomes provides a standard to measure programs against.

Are there legitimate concerns about outcome measurement?

Unfortunately, the wrong things do get measured frequently out of confusion or because certain criteria are not easy to measure. In other cases, results with consumers with complex needs which are served over a long period of time can be misinterpreted as

poor outcomes. Also, communities unwilling to comply with access laws and codes may confuse the real effectiveness of efforts.

What other tools and resources are available for outcome measurement?

The United Way of America Manual *Measuring Program Outcomes: a Practical Approach* is a great starting point. Also, check with your state or national affiliate to determine whether they have resources available.

There is some software available for outcome measurement. Some examples include N Works 2000 designed by the Neighborhood Reinvestment Corporation; Case Manager, a database developed for social services, and IPASS Outcomemetrics, which is designed for Health and Human Services agencies.
Clearly, outcome measurement is challenging. But it can help with service delivery, and it is likely to be required or expected by funders and others.

Developing, managing, and revising a budget

Learning objectives

Participants will understand the importance of a budget as a control tool.

Participants will learn who is involved in the development of the program budget.

Participants will learn how to update budgets to assure that useful comparative information is available.

Participants will be able to identify what strategic financial actions should be considered when a well-prepared budget is measurably different from actual results.

Participants will understand where the detail for the budget is developed.

Participants will be to identify how to develop cost allocation methods for programs.

Participant input

What is your responsibility for budget development?

Do you provide an overall agency budget?

Do you prepare program budgets?

How common is it for your organization to revise its budgets during the year? Do you get useful information out of your budget actual comparisons? What you do with that information?

How do you, as the financial interpreter of the proposed program, make sure all income and expenses are in the proposal?

Presentation

Developing program budgets

[This section is adapted from Alliance for Nonprofit Management Web site with permission.]

All staff that are directly affected and will later be responsible for a proposed budget should be involved in the development of the program and its budget. Far too often this process divides an organization rather than unites it for a new opportunity. Program planning is often considered the domain of the executive director and program directors. Fiscal management is assigned to the bookkeeper, accounting, and the finance director.

The program staff must paint a clear picture of their intended goals and detail the proper tools needed to achieve that outcome. In many cases the grantor may dictate the outcomes. It is the responsibility of the financial staff from the organization to interpret this detailed plan into a budget that accurately reflects the vision of the program as it is presented. Once this vision is on paper, both programmatically and financially, it should be reviewed and agreed upon by all staff involved. Adjustments may be made to meet the grantors needs, the program needs, or financial reality.

The budget detail is developed directly from the narrative of a program proposal. It is the estimated financial plan for the program being proposed. This document should include all sources of revenue and support for this program as well as a breakdown of expenses to be incurred to operate the program. Depending on the grant guidelines, the budget may be a simple one-page statement of projected expenses, or an entire spreadsheet including projected support and revenue and a detailed narrative, which explains various items of expenses or revenues. A budget narrative can be structured in two ways. You can create "Notes to a Budget" with footnote-style numbers or letters keyed to lines in the budget and numbered or lettered explanations. If there are a number of unusual line items and an extensive explanation is needed you may want to develop a straight text narrative. Multi-year budgeting for a program may be required by the grantor. If this is the case remember to consider inflation or cost increases for expenses for each year. Costs such as salary increases, health insurance increases, utilities and other expenses may be tied to the CPI or other factors. A multi-year budget will allow the grantor to see if the program will be able to support itself and not end if the grantors funds are stopped and also for their own budgeting purposes.

The typical elements of a budget include:

- **Support and Revenue**
  1) Foundation funding
  2) In-kind (non-monetary) gifts
  3) Government sources (federal, state, and local)
  4) Individual contributions
  5) Fees for service

- **Expenses**
  1) Personnel
  2) Fringe benefits
  3) Rent
  4) Office expenses
  5) Telephone
  6) "Detailed Other expenses"
  7) Capital equipment purchases

Be careful not to put "Other" on a line with a large dollar amount next to it. Grantors want to know that you are not guessing or padding a budget. The budget should be a reasonable estimate of costs for your program. A small amount, both percentage and

dollar wise, is acceptable. Always retain any worksheets that were used in developing each line item in the budget. If budget adjustments or explanations of amounts are needed they are important tools.

Program budgets do include overhead expenses (also called indirect costs), which allow the program to bear a portion of administrative costs of the day-to-day operation. These items are incurred whether or not the particular program for which you are budgeting goes forward, and you can't run the organization without these costs. A simple formula used to allocate overhead costs would be based on the organization's overhead costs to the organization's total program costs.

Developing an Overhead Cost Rate

The first step in determining an overhead cost rate is to separate all costs into two groups: direct and overhead costs. The overhead costs are aggregated into an overhead cost "pool" and then allocated to the programs based on a set proportion or rate.

EXAMPLE: There are 10 employees working at ABC Center for Independent Living, Inc., a nonprofit organization, 3 staff working in I&R, 5 staff working in skills training, the executive director, and bookkeeper. Overhead costs are $100,000. Based on the number of employees in each program the overhead rate would be:

3/8ths x $100,000 = $ 37,500 for I&R 5/8ths x $100,000 = $ 62,500

EXAMPLE: Each year ABC Center for Independent Living, Inc, a nonprofit organization, spends $400,000 on it's programs, and $100,000 on overhead costs. The overhead rate would be $100,000/$400,000 = .25. The overhead rate would be 25%, meaning that for every dollar the organization spends on its programs, 25 cents is spent for overhead.

Some overhead expenses can be:

- **Overhead Expenses**
  1) Bookkeeper's salary & fringe benefits
  2) Personnel salary & fringe benefits
  3) Executive director's salary & fringe benefits
  4) Utilities
  5) Insurance
  6) Building/Office maintenance
  7) Audit costs for a Single Audit

Other methods of allocating indirect costs

Case by case allocation:

The advantage of this method is that you will develop formulas that "make sense". A major disadvantage is the amount of record keeping required to develop a formula for each line item. Even if you keep the required records to precisely allocate shared expenses among programs, not all expenses will be covered. If, for example, the rent is allocated by square foot, how should you allocate the hallways and restrooms? What about the phone calls that cannot be tracked using a code? For these shared expenses, which cannot easily be divided into programs, using the above indirect cost method is useful.

The Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit Organizations,* describes the method of developing a federal overhead cost rate, using these same ideas. However, even with these guidelines, overhead cost rates can vary for the same organization from federal agency to federal agency. There are no across the board standards or maximum levels for overhead costs. Some foundations have informal, unwritten guidelines for a maximum level. Under federal guidelines, allowable overhead costs range from 3% to 70%, varying from agency to agency.

Summary

Building a program budget:

- Clearly set out the costs to be met by the grantor and all other funding sources. Outline both program and administrative costs.
- Show income and expenses in a columnar format separating the specific program from the overall operating budget.
- Describe each line item of expense and its corresponding dollar value.
- List actual committed and pending sources of income only.
- Prepare a detailed budget consistent with the proposal narrative:
  1) Include program costs to be incurred at the time of the programs implementation.
  2) Do not include miscellaneous or contingency categories, include all items requested for funding, and all items to be paid by other sources.
  3) Detail fringe benefits separately from salaries.
  4) Detail all other than personal services expenses.
  5) List separately all donated services, gifts in kind, volunteer services, and overhead costs where appropriate.

Sample Budget for Program Grant Proposals
ABC Center for Independent Living, Inc.

5/30/98[1]

SOURCES OF SUPPORT	1997-98	1998-99	1999-00[2]
Foundations			
⟹Foundation A	$ 0	$ 7,000*	$ 15,000*
⟹Bush Foundation *(proposal)*[3]	20,000	10,000	0
⟹Foundation B	4,000	4,000	4,000
⟹Foundation C	10,000	11,000	11,000
Corporations			
⟹Corporation X	$ 1,000	$1,000	$ 2,000
⟹Corporation Y	1,000	1,000	2,500
Business & Fraternal Groups	19,000	9,000	9,000
Individual Contributions[4]	13,000*	16,200	4,500
Government Grants	10,000*	20,500	23,350
Religious Organizations	3,000	3,000	4,000
Fees (Contract, Professional)	14,550	16,000	24,700
Client Review	1,500	1,500	1,500
TOTAL	**$ 97,050**	**$ 100,200**	**$ 101,550**
EXPENSES			
Staff Positions:	$ 64,000	$ 66,400	$ 68,800
⟹Coordinator			
⟹Supervisor (part-time)			
⟹Assistant (part-time)			
Fringe Benefits for above	15,050	15,650	16,250
Rent	2,750	2,850	2,850
Telephone	1,000	1,000	1,000
Office Supplies & Equipment	1,750	1,850	1,400
Other			
⟹Printing, Speakers, Training	9,100	9,200	7,800
⟹Postage	900	950	950
⟹Travel	2,500	2,300	2,500
TOTAL	**$ 97,050**	**$ 100,200**	**$ 101,550**

Notes for Sample Program Proposal Budget:
*** Amounts pledged or paid by the date document is prepared.**

1. Please indicate the date this document was prepared.
2. If the proposed program or project is to continue after the end of the proposed Bush grant, include a column showing how the program will be continued in the year following the end of the proposed Bush grant. In this example, the Bush Foundation is asked to grant $30,000 over two years in yearly payments ($20,000, $10,000). The amounts requested for each year are shown in Column 1 and Column II. Column III shows the income and expenses projected for the first year after Bush support would end. Use notes following the table to explain major changes in income and expense items.
3. If restrictions are proposed for the use of Bush funds, please indicate what those restrictions are. In this example no restrictions are proposed. In another example, Bush funds might be sought to pay decreasing proportions of the salaries of additional program staff.
4. Using an asterisk or footnote beside the amounts in Columns I, II, and III, please show which amounts have been received or are pledged. In this example, individual donors have pledged $13,000 for the project, and county government has paid $10,000 to support this project in 1997-98.

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Building Better Budgets—Guidelines for preparing your overall agency budget.

A well-prepared budget will keep your organization financially stable and provide an early warning about financial problems.

Mechanics of preparing the budget

- Determine the level of services you are **able to** provide
- Determine the most likely level of service which you **will** provide
- Calculate Revenue based on expected units of service
- Determine staffing needed to provide this level of services
  - Direct salary related
  - Direct non-program salary
- Calculate payroll and payroll benefits based on staffing
- Determine what supplies and other expenses will be necessary at this level of service
- Determine which categories of expense are affected by level of service and by your decisions
  - Program administration
  - Maintenance and occupancy
  - Administrative
- Adjust for seasonal-impact on capacity level of services and certain expenses
- Summarize the budget components
- Compare the budget to prior years and be sure to understand large variances
- Look at the budget throughout the year and compare actual results to expectations

Cash flow projections

Learning objectives

Participants will be able to identify the time frames for which a cash budget can and should be prepared.

Participants will understand how the cash flow budget helps with financial decisions including investing, borrowing and even hiring and purchase decisions.

Participant input

Is it impossible to prepare a cash flow budget or does it just seem that way?
If you're not sure when a funding agency will send payments, should you prepare cash budgets?

What is the value of cash budgets?

Presentation

Cash flow projections are not an alternative to or replacement for traditional budgeting. They complement and draw information from your budget. They are designed to help your organization project whether adequate amounts of cash will be available.

Cash flow projections could be prepared for your entire fiscal year. However, they would need to be updated as information develops about collection experience, state budget delays, new programs, changes in service level and the like.

Cash flow projections that cover 4 & 8 weeks are necessary if your organization is experiencing cash flow difficulties.

Cash flow projections can identify short-term cash needs that can be met by line of credit or other borrowing or by delaying disbursements.

Cash flow projections should be prepared with detail about each of your key revenue sources and your major expenditures including payroll, related taxes and benefits, occupancy costs, etc. You can combine any items that "act the same way". For example, you don't need details of payroll by employee or of the components of payroll tax that are all paid on the 15th of the month. These items can be combined with other similar items.

A budget for a regional center for independent living can be found in the Appendix. Use this information to prepare initial cash flow data for the first few months of the coming year.

Financiai Planning for Your Special Events

Learning objectives

Participants will understand the financial planning that goes into special events.

Participants will be able to name the financial controls that can and should be associated with special events.

Participant input

What types of special events has your organization been involved with?

What were the best things that you did to assure financial success of your special events?

What would you have done differently to improve the financial success of the special events?

Presentation

Here's some guidance for planning your next special event.

You will need to prepare financial projections for the event. Start with the total fund-raising goal that you have for the special event.

Your gross income will include any money you receive from attendees and also amounts paid by sponsors. It is often helpful to have one or two major sponsors and a handful of other sponsors provide support to help assure that the event will be a success.

Next, analyze the expenses that are necessary for that event. Be sure to include the following:

- ✓ Facility rental—this can be a major item so you should request a proposal to have an idea of these costs.
- ✓ Food and refreshments—this is very dependent on your estimate of attendance.
- ✓ Promotional material—again, it will be valuable to know total costs. You should request proposals from at least two providers.
- ✓ Stipends or awards to any special guests or presenters who will attend.
- ✓ Permits required for such an event.

- ✓ Transportation costs and travel expenses for people helping with the event.
- ✓ Prizes and incentives—can add excitement and encourage repeat attendance at future events.

Your board should be involved, and take the lead in pursuing sponsorships and promoting ticket sales.

When you have everything else in place, consider the cost of publicity for the event. You may be able to get some reduced rate promotion as a nonprofit but be sure that you have effective promotion for your event.

Proper planning will not only help you carry out an event that is fun but financially successful as well.

BOOKKEEPING BASICS FOR THE NOT-FOR-PROFIT BOOKKEEPER

Prepared and Presented By: Heveron & Heveron, CPAs, P.C

BEST COPY AVAILABLE

OUTLINE

Financial Statements Defined

Balance Sheet
Statement of Activities
Statement of Cash Flows
Statement of Functional Expenses
Notes to Financial Statements

Chart of Accounts

1. Assets
2. Liabilities
3. Net Assets
4. Support and Revenue
5. Expenses

Principles, Concepts & Financial Summarization

1. Accounting Method
   i. Cash
   ii. Accrual

2. Cash
   i. Reconciliation

3. Investments
   i. Recording Activity

4. Accounts Receivable
   i. Aging
   ii. Use of Automation

5. Fixed Assets
   i. Capitalization Policy
   ii. Depreciation and Amortization

6. Prepaids
7. Intangibles
8. Accounts Payable
   i. Aging
   ii. Use of Automation

9. Accrued Expenses
   i. Payroll/Vacation

10. Current/Long-Term Debt
    i. Mortgages
    ii. Line of Credit

11. Deferred Revenue
    i. Grants and Contract Revenue v. Contributions

12. Support and Revenue
    i. Contributions
    ii. Grants/Contracts
    iii. Program Service
    iv. Investment
    v. Other

13. Expenses
    i. Payroll
    ii. Occupancy
    iii. Special events
    iv. Direct Expenses
    v. Indirect Allocation

14. Federal Awards/Expenditures

Glossary (handout)

FINANCIAL STATEMENTS – DEFINED

A. Balance Sheet

Defined – Snapshot of your financial situation at a moment in time

1. What you own
2. What you owe
3. What you're "worth"

Who Cares? – Creditors, Board members, Contributors, etc.
Accounting Equation – (Assets - Liabilities = Net Assets)

B. Statement of Activities

Defined – Support, revenue and expenses for a set period of time. Identifies restrictions imposed by donors. Shows reconciliation of prior year's net assets to current year's net assets.

Expenses

1. General and Administrative
2. Program

Revenues

1. Unrestricted
2. Temporarily Restricted
3. Permanently Restricted

Note – You must get the balance sheet right to have an accurate statement of activities!

C. Statement of Cash Flows

Defined – Reconciliation of excess or deficit to the change in your cash balance for the period. Shows where cash was consumed and where cash came from.

Operating Activities

1. Depreciation
2. Forgiveness of Debt
3. A/R and A/P
4. Prepaids/Deferreds

Investing Activities

5. Purchases of Fixed Assets
6. Purchases/Sales of Investments

Financing Activities

7. New Debt/Payment on Debt

D. Statement of Functional Expenses

Defined – Details your expenses on a program by program basis (the function that they accomplish) as well as showing general and administrative costs (operating) and fundraising costs.

1. The importance of "classes"
2. Indirect cost allocations
3. United Way – requires revenue as well

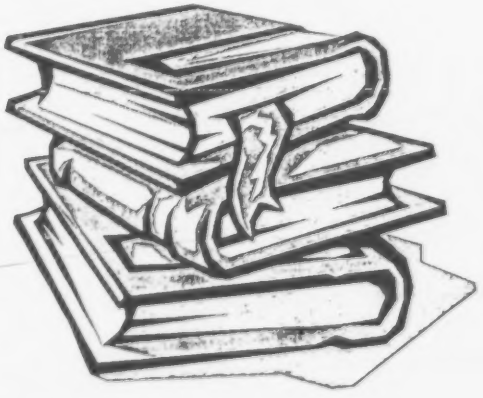
E. Notes to Financial Statements

Defined – Tells users how the financial statements were prepared as well as detailing certain accounts that require additional information.

1. Basis of accounting
2. Depreciation lives and methods
3. Terms of long-term debt and leases
4. Volunteer services
5. Other commitments and subsequent events

CHART OF ACCOUNTS

- The "heart" of the accounting operations!!
- Includes all assets, liabilities, net asset classifications, support, revenue and expenses.
- A properly thought-out chart of accounts makes a world of difference with the resulting financial statements.
- Do not micro-manage!!
- Consider the requirements of your BOD, annual filings and year-end financial statements.
- Consistency among staff in recording is extremely important.
- Define your accounts.
- Use numbers for all accounts.



PRINCIPLES, CONCEPTS AND FINANCIAL SUMMARIZATION

PRINCIPLES AND CONCEPTS

A. Method of Accounting

1. *Cash* – Recording of receipts and disbursements as they are received and paid.
2. *Accrual* – Recording of revenues and expenses as products are delivered or services are performed (required by GAAP).

B. Debits and Credits

Why do we care? – Journal entries are an integral part of bookkeeping. "Increases and Decreases"/"Left and Right"

Table of Debit and Credit Entries:

Type of	*If the transaction will increase the account, enter it as a…*	*If the transaction will decrease the account, enter it as a…*	**Normal Balance**
Asset	Debit (left)	Credit (right)	Debit
Liability	Credit	Debit	Credit
Net Assets	Credit	Debit	Credit
Income	Credit	Debit	Credit
Expense	Debit	Credit	Debit

FINANCIAL SUMMARIZATION

A) Cash

1. Reconcile, reconcile, reconcile!!!
2. Any transaction that effects cash should be recorded immediately (to unclassified if unknown)
3. Record all normal transactions through cash receipts and cash disbursement journals
4. Payroll, loans, etc. may require journal entries involving cash.
5. Don't forget bank statement items such as service charges and interest.

Note – If cash reconciles it is safe to assume that the rest will follow !!

B) Investments

6. Be sure to record all investment activity throughout the year (recording annually distorts the statement of activities as well as the balance sheet).
7. Investments must be stated at market value – the difference between cost of investments and market value is "unrealized gain (loss) on investments.
8. Other investment accounts
   i. Realized gain (loss) on investments
   ii. Interest/Dividend revenue
   iii. Contributions
   iv. Brokerage fees

C) Accounts Receivable

Defined - Amounts earned but not yet received.

Any time a client, grantor, contributor, etc. is billed, vouchered, etc. a corresponding accounts receivable should be set up, regardless of whether or not it is earned. Most software packages come with an A/R component – if not – you must debit accounts receivable and credit the appropriate support or revenue account.

9. Accounts Receivable - use for program service fees
10. Grants Receivable – use for state, federal, corporate, foundations, etc. grants
11. Pledges Receivable – use for contributions to be received in the future (note – this must be recorded at net present value if material)

D) Fixed Assets

Defined – Buildings, furniture, fixtures, equipment, computers, etc. that you own.

12. Capitalization Policy – This policy should be set up to determine the dollar amount under which an item is expensed and over which an item is capitalized and depreciated. Normal Range - $500-$2,500 (depends upon your budget).
13. Additions over your capitalization policy should always be recorded as an asset and depreciated over its estimated useful life. *(If grantors require you to show an expense for the purchase, you may show the expense with a corresponding line item removing the expense and adding the asset.).*
14. Note: If you do not record and depreciate these items throughout the year – the depreciation expense will be recorded by your auditor at year-end which will reduce your net income. This may end up being a surprise to those who have seen the statements during the year.

E) Prepaid Expenses

Defined – A payment of expenditures that have future benefits. Held as an asset until expensed in the proper period.

1. Insurance premiums – allocate a monthly charge to expenses
2. Deposits for future events
3. Dollar limits should be used

F) Intangibles

Defined – A nonfinancial asset of an organization with economic value. Must amortize over their useful lives.

1. Copyrights
2. Goodwill
3. Cash Surrender Value of Life Insurance

G) Accounts Payable

Defined – Expenses that have been incurred but not yet paid.

The dollar limit on these expenses will vary according to the organization's size. Accruing accounts payable is important for accurate financial statements.

As invoices are received, enter them into your computer (or ledger). The result will be a debit (increase) to an expense account and a credit (increase) to your

liability. As they are paid, remove them from payables. Always use the Accounts Payable component of your accounting software, if available. Quickbooks is very user friendly for the recording of these payables.

Be sure to reconcile your aged accounts payable listing with your trial balance *at least* monthly or it becomes very difficult to maintain an accurate list.

H) Accrued Expenses

Defined – Very similar to accounts payable. Accrued expenses are those which are incurred, yet not yet paid.

The major difference between A/P and Accrued expenses shown on the balance sheet is simply that accounts payable is meant to track your vendor invoices. Accruals record expenses for those items which you may not have invoices for.

1. Payroll – at least at year-end, always accrue (if material) the amount of payroll included in your final year-end month, but not paid until the following month.
2. Vacation – Does your personnel policy allow for carry-over of time?
3. Sick Leave
4. Pension Plan

I) Current/Long-Term Debt

Defined – Amounts of loans, mortgages, lines of credit, etc.

At least at year-end, you should calculate the amount of debt due within the next 12 months and show that amount separately on your financial statements. This assists you in cash flow planning.

Always use amortization schedules and/or invoices received to record payment on your debt. Record the interest portion of the payment to "Interest Expense" and reduce the liability account (i.e. "Notes Payable") by the principal portion of the payment. Do this at the same time as you write the check to avoid misclassification on your balance sheet and income statement.

J) Deferred Revenue

Defined – Revenue that has been received or billed but not earned.

This revenue must be recorded as a liability on your balance sheet until you earn the right to the funds. When earned, a revenue is recorded and the liability is removed.

NOTE: This differs from contributions received that carry restrictions – (*next section*)

1. Program Service Revenue = Exchange Transactions
2. Grant Income (It is important to differentiate grants and contracts that pay for performance and therefore, are "exchange transactions" from contributions.

K) Support and Revenue

Defined – Earnings from services performed or contributions/grants, etc. received.

Support = contributions, bequests, certain grants, fundraisers, etc.

Revenue = earned by performing services, selling products, investing funds, etc.

1. Contributions – Must be classified as unrestricted, temporarily restricted or permanently restricted. All contributions without conditions are recorded as revenue in the period received regardless of when earned.
2. Grants/Contracts – Usually result from services performed for the grantor/contractor or other parties specified by the grantor/contractor. All funds received should be recorded as revenue as earned.
3. Investment Income – It is very important to record this activity throughout the year and classify all income as dividend, interest, realized or unrealized gains and losses.
4. Other Income – Only record items in this category that are truly "other". If money is received as a refund or rebate, the corresponding expense account should be reduced. Examples of "other" income are immaterial unexpected revenues, insurance proceeds (after reduction of the expense), etc.

L) Expenses

Defined – Outflows of an organization other than capital expenditures.

1. Payroll – almost always the largest expense of any nfp organization. Record payroll at gross amount. Record only the employer portion of the FICA/Medicaid as "payroll tax expense". Reconciliation to quarterly payroll tax returns is very beneficial for accurate financial statements. It is *very* important for an nfp organization to track payroll according to function!! Most nfp organizations are required to present a "Statement of Functional Expenses" which shows all expenses according to their function (program v. general & admin.)

2. Occupancy—rent, taxes, utilities, etc. These expenses must also be allocated to the proper program and/or general and admininstrative function.
3. Special Events Direct Costs—these should be tracked separately and shown on the income statement as a reduction of special events revenue. This *must* be separate from other expenses for your annual tax filig (Form 990).
4. Indirect Allocation—as mentioned above, all expenses, not only payroll and occupancy should be tracked program by program. Any expense which is not specifically identifiable to any one program, but it is necessary for all program and for general admihnistration, may be allocated using certain methods (i.e., payroll, square footage, etc.)

M) Federal Awards/Expenditures

Defined – Any monies received, either directly or indirectly, from the federal government.

You *must* be in compliance with the program guidelines.

You *must* have internal controls over the compliance with the programs.

You *must* have a compliance audit if your expenditures meet or exceed $300,000 in your current fiscal year.

Subrecipient monitoring is very important!!

External Processes

Independent audits

Learning objectives

Participants will understand audit objectives and the audit process.

Participants will understand the client's rights and responsibilities

Participant input

Does your organization have an annual audit?

What is your role with the audit? Do you provide financial information to auditors?

Do auditors discuss procedures or controls with you?

Do you feel like you need to train the auditors every year?

Presentation

Since Independent Living Organizations must perform services according to requirements of the funding they receive, auditors carefully review the terms of funding contracts. We also look at your procedures for charging payroll and other expenses to each of the programs to make sure that you are entitled to income. There are federal rules and accounting rules about how costs get charged to programs.

We look at the size and nature of your accounts. We pay special attention to accounts such as cash that are more subject to risk; accounts such as legal expense, which can disclose potential problems; and also, maintenance and supplies expense accounts that could contain equipment that should be recorded on your balance sheet.

We review minutes of your board because they tell us about events and activities, notifications of pending contributions or bequests, grant approvals, approval for borrowing, changes in your banking relationships, salary adjustments, and potential litigation.

We review your budget-to-actual comparison to see where and understand whether things went as planned.

We look at your information technology procedures to determine their security and efficiency. Your procedures for backups, password protection, surge protection, anti-virus use and updates are reviewed.

Getting to know you, getting to know all about you

How do auditors get "Up to speed" with your unique operations and those of every other client they deal with? We would love to have you believe that auditors are geniuses. However, the truth is that we use some time-tested techniques to understand your operations. You may find these helpful for training new employees, your board and committees involved with finances.

We start with your mission. We determine what your organization is "in business" to do. Your desire and ability to deliver service, education and/or products is the logical starting point. However, since this isn't a perfect world, your desires and abilities to serve will be affected by your ability to obtain funding. We know that the requirements that come with your income determine the activities that you should carry on.

All income comes with requirements that must be understood by you before income should be accepted. Once income is accepted, these requirements go into the design of your budget and your business plan. Some examples of income requirements include:

Donor contributions

Contributions may be accompanied by restrictions about how and when they can be used.

You should have a clear understanding about any time (when they can be used) or purpose (how they can be used) restrictions imposed by donors. In some cases the appearance of a restriction may not be accompanied by an actual restriction. This would be true where a donor makes a contribution with a requirement that the gift should be "used for medical education or another purpose that the board finds appropriate". This apparent restriction is simply a suggestion and the donor has left the final decision to the board.

Donor restrictions can be passively imposed. This means that, if the organization asks for contributions or holds a fund-raising event "to be used for publications for the library", the restrictions are treated as being donor restrictions.

Donor restrictions can be temporary or permanent. Permanent restrictions such as non-expiring endowment fund contributions do not expire whereas temporary restrictions can be met by the funded organization.

Memberships

Memberships can have characteristics of contributions or of revenue based on what the organization commits to do for its members. There is usually a printed summary of benefits that describes exactly what the organization does for its members. This will clarify the contribution vs. revenue analysis and also aid in understanding commitments the organization has made to its members.

Fees for service

Fees from consumers, insurance companies or other third parties can be similar to fees earned by commercial organizations. In some cases exempt organizations will charge fees on a sliding scale based on income or ability to pay. In other cases, payments such as rent paid by low income persons are subject to legal limitations imposed by government funding agencies.

Grants and contracts

Grants and contracts can fall into one of two primary categories—contributions or exchange transactions.

Exchange transactions are similar to fees for service in that the organization providing funds will normally stipulate who receives services and when, and how they are rendered. These transactions are reported as income as services are performed.

Contributions are reported as income when the not-for-profit is certain that it will receive the contribution.

Funding agencies

Funding agencies can have various financial relationships with the exempt organizations they fund. They may provide funding based on the number of participants, units of service or some other specific measure of services rendered by the not-for-profit. In other cases, they will provide a fixed amount as long as certain projects are accomplished and in still other cases, the funder may provide money to cover the organization's deficit.

What does an auditor learn from this analysis of income? The auditor will gain a clear understanding of the different forms of revenue and accompanying restrictions. This will allow the auditor to verify that income is recorded accurately and to determine what

activities must be carried out. Understanding revenue will also allow the auditor to determine what compliance requirements exist.

What can you gain from understanding revenue sources? You will have a good way to train internal and external financial people and also have important information for preparing your budget because each of the restrictions or requirements translates to services that you should provide. These services can be expressed in terms of personnel necessary to perform services as well as facility and other support necessary for carrying on your activities.

Government audits—compliance auditing

Learning objectives

Participants will understand how governmental accounting standards and procedures compare to traditional audits.

Participants will understand the single audit process.

Participants will be able to identify the responsibilities of the Organization and the auditor.

Participant input

Does your organization receive and spend federal resources? Do those expenditures total $300,000 or more?

How and where does your organization get information on the audit process and its guidelines?

What is reported in the Single Audit Report, who gets this report and what if there are findings?

Who is responsible for each step of the process and what are the steps?

Presentation

Purpose of an audit and the different types of audits
[This section is adapted with permission from *Highlights of the Single Audit Process* published by the Office of Mangement and Budget.]

General GAAP Audit

An audit is a process for testing the accuracy and completeness of information presented in an organization's financial statements. This testing process enables an independent certified public accountant (CPA) to issue an opinion on how fairly the organization's financial statements represent it's financial position and whether they comply with generally accepted accounting principles (GAAP). Board members, staff, and their relatives may not perform audits because their relationship with the organization would compromise their independence.

The audit report is addressed to the board as trustees of the organization. The report usually includes:

- A cover letter, signed by the auditor, stating the opinion.

- The financial statements, including the statement of financial position (balance sheet), statement of financial activity (income statement), statement of cash flows, and statement of functional expenses. Many audits have comparative information for previous years.

- Notes to the financial statements, as required by GAAP, giving further explanation about functional expenses, depreciation schedules, contributions, volunteer services, and other important information not obvious on the financial reports.

In addition, the auditor may prepare a management letter or report, addressed to the board of directors, to cite areas of concern or weakness in an organization's internal accounting controls.

Government Audits

Type of Organization	Cost Principles	Admin Requirements	Audit Requirements
Other Non-Profit	A-122*	A-110*	A-133*

*(The various Circulars above are available at the OMB Grants Management web site at http://www.omb.gov/grants)

A government audit is an audit that may be in addition to the annual GAAP audit. **Governmental Auditing Standards** apply when required by ***law, regulations, agreement, contract, or policy.*** Generally, when expenditures of federal awards exceed $300,000 the requirements of OMB Circular A-133 will apply.
When expenditures are below this level, compliance audit requirements should not be imposed. In fact, if an audit is required when expenditures are under this level, the cost of the audit may not be an allowable cost for reimbursement.
The purpose of the OMB Circular A-133 is to set standards for consistency and uniformity for the audits. The Circular provides specific policy, procedures, and criteria, which the Federal agencies, auditors and organizations are, required to follow. The single audit is intended to provide a cost-effective audit of the grant recipient. Cost and time can be saved when an organization-wide audit, or single audit, is conducted instead of multiple audits of Federal programs. Each party knows beforehand what is expected and what the end products of the audit will be. Repeated exposure to the audit process promotes discipline in an organization's accounting practices. The three types of government audits are determined by the following:

- An organization that **spends less than $300,000 is not required to have a Single Audit**. However, upon request, that organization is required to make its records available for review or audit by appropriate officials. In certain circumstances, a pass through entity may obtain a limited-scope audit of its sub recipient that spends less than the threshold amount.

- If an organization spends federal funds **under only one program that meets the $300,000 level**, a **program-specific audit** may be performed. This limits the scope of the audit to only that program for compliance testing.

- When an organization receives more than **$300,000** of federal funding either directly from a government agency or from a pass through entity, such as Vocational Rehabilitation Services, a **Single Audit Report** must be performed. This is an organization-wide compliance audit to determine not only financial compliance with grants and contracts, but also to verify program compliance, and to assure internal controls are properly in place.

Organizations subject to audit must:

1) Arrange for a timely audit

2) Prepare appropriate financial statements and a schedule of expenditures of Federal awards

3) Ensure the audit is properly completed

4) Submit the single audit report when due

5) Take corrective action on any audit findings. Audit findings are deficiencies or weaknesses in internal controls, material noncompliance with laws, contracts or grant agreements, known questioned costs, known fraud, and if a major program opinion is less than an unqualified opinion.

Single Audit Report

The single audit report contains:

- The financial statements of the organization
- A schedule of chargeable expenses against the Federal grant/award
- The auditor's opinions on the fair presentation of the financial statements and schedule of expenses against the Federal grant/award
- The auditor's report on internal control and compliance pertaining to financial reporting
- The auditor's report on internal control and compliance pertaining to major programs
- The auditor's schedule of findings and questioned costs
- The organization's corrective action plans
- A summary schedule of prior audit findings which includes planned and completed corrective actions

The Single Audit Report is submitted to:

- The federal clearinghouse designated by the OMB to retain as an archival copy
- Each federal awarding agency
- Each pass-through entity

Responsibility of the Auditor and the Organization

Auditor

The auditor is required to:

- Perform the audit in accordance with the *Government Auditing Standards*
- Determine whether the financial statements and schedule of expenses for Federal grants/awards are presented fairly
- Gain an understanding of internal control over Federal programs and test internal control over major programs
- Determine whether the organization has complied with the compliance requirements which may have a direct and material effect on each of its major programs
- Follow up on prior audit findings

Specific tests will depend on the circumstances and may include procedures such as:

- Identifying who is responsible for monitoring compliance,
- Determining whether experience and training of employees is appropriate,
- Review of accounting records maintained for award programs,
- Preview of the procurement process,
- Reviewing physical controls over assets and accounting records,
- Determining whether adequate Fidelity bonding exists, and
- Evaluating record retention procedures.

The auditor is required to present the following as an audit finding in the schedule of findings and questioned costs:

- A deficiency in internal controls related to audited programs
- Material non-compliance with the laws, regulations, or contract or grant provisions related to an audited program
- Questioned costs which exceed $10,000
- Detected fraud which affects a program
- Misrepresentation of the status of a previous audit

The auditor is required to prepare specific components of the audit report and sections of the SF-SAC Form.

Organization

The organization is required to:

- Prepare their financial statements and schedule of expenses for Federal grants/awards. The statements and schedule must be prepared for the same time period.
- Selecting an auditor to conduct the audit required may be the most important activity in the audit process. Non-governmental organizations must engage a public accounting firm to conduct the audit. Ensuring the auditor has the professional qualifications and technical skills to conduct the audit are important.
- The organization is responsible for (a) preparing a corrective action plan for current-year audit findings and (b) taking action to correct the reported findings.
- The organization is responsible for reporting the status of its corrective action for each prior year finding in the summary schedule of prior audit findings until the finding has been corrected or the finding is no longer valid or warrants corrective action.
- The organization is responsible for submitting the SF-SAC Form and the audit report to the Federal Audit Clearinghouse within 30 days of receipt of the auditors report, but no later than 9 months after the end of the organization's fiscal year.

Source: *Highlights of the Single Audit Process* OMB

WHAT FEDERAL AWARDS INCLUDE

In addition to program payments, "FEDERAL AWARDS" include federal:

- grants,
- contracts,
- loans,
- direct appropriations,
- loan guarantees,
- commodities,
- insurance,
- property, and
- interest subsidies.

Federal payments to vendors (organizations providing goods or services related to administration) are NOT Federal Financial Assistance.

Matching funds that are not composed of federal money are not included in determining total expenditures.

When do expenditures occur?

Expenditures are incurred when an organization has program costs calculated on the basis of accounting used for external financial statements. This means that for planning, accounts payable must be taken into account for accrual basis organizations.

In other circumstances, activities would determine when expenditures of federal awards occurred. For example, disbursement of food commodities or constructing a building with loan proceeds would be considered expenditures.

Repayments of loans would generally not be considered expenditures. However, some agencies have continuing compliance requirements that cause outstanding loans to be treated as "expenditures" for each year that the loan remains unpaid. For example, HUD loan balances and capital advances with continuing compliance requirements are treated as expenditures each year.

The OMB A-133 Compliance Supplement is useful in identifying such requirements.

Lobbying rules and reporting

Learning objectives

Participant will be able to identify what must be avoided with lobbying.

Participants will be able to identify what forms of lobbying are allowable and appropriate for their organizations.

Participants will learn the financial limitations for regular and "grassroots" lobbying.

Participant input

How does your organization get involved with lobbying?

What is the involvement of staff, board members and volunteers?

Does your organization tend to get involved with specific legislation such as possible new laws?

Do you have any of lobbying success stories that you would like to share?

Presentation

Lobbying rules for charities

Not-for-Profit organizations exempt under Internal Revenue Code section 501(c)(3) are subject to dollar limitations on allowable lobbying, a unique definition of what is included in lobbying, an option to register and come under a safe harbor, and specific prohibition of some activities.

Should charities lobby? Absolutely! The Independent Sector lists reasons why you should lobby for your cause. Included are the realities that people working together can and do make a difference. Examples of individuals and groups that have changed legislation, obtained resources for research and improved quality of life are cited. Laws that eliminated discrimination, made huge changes to child labor, public schools, clean air and water and Social Security resulted from active involvement of thousands of people who saw the need for change.

Lobbying is a Democratic process. Working through our policymakers and legislators is what separates us from other countries that don't enjoy democracy.
Lobbying has made it possible for family service organizations to place abused children into safe houses and to allow caterers and restaurants to donate excess food to soup kitchens and homeless shelters.

Lobbying isn't difficult or mysterious. You can learn what to say to whom and when in a short time. (See lobbying resources below)
Our policymakers cannot understand your issues without your input. People working first and with the problems can explain the real issues and communicate problems with passion and perspective.

There has been a trend at the federal level to allow local governments more discretion in spending federal dollars. This is an opportunity and responsibility for local not-for-profits to communicate what is needed and what will work.

Lobbying advances your cause and builds public trust. You miss an important opportunity to advance your cause and increase your organization's visibility without lobbying.

Now that you are convinced and ready to start lobbying, be aware of the few areas that you must avoid.

Political parties and candidates

You need to absolutely avoid endorsing candidates for public office. There is no tolerance here and you can lose your exempt status if you engage in campaigning.

Campaigning against a candidate has the same effect as campaigning FOR one. This prohibition also extends to contributions to candidates' campaigns, engaging in fund-raising activities, distributing statements and similar activities.

The organization cannot allow paid employees to work in behalf of a candidate or political organization while receiving compensation.

You cannot allow a candidate or political organization to use your facilities or equipment.

Some organizations are really militant about these restrictions. One group has even announced its intention to monitor the activities of religious organizations and inform IRS about violations of the rules prohibiting involvement in political campaigns.

Legislation

While you should not be involved with elections, it is appropriate to be involved with legislation.

Legislation that affects your organization and those you serve is an appropriate way to direct some of your efforts and spend some of your money.

Certain activities are permitted and not subject to the expenditure limits shown below.

For example, self-defense lobbying is allowable because this involves issues affecting the existence of the organization itself or its tax-exempt status. (This exclusion does not apply to grassroots lobbying).

Certain voter education activities are also permitted but activities must be non-partisan. For example, under certain circumstances you can publish voting records or responses to questionnaires without opinions or bias and without focus on an election.

Safe harbor registration

If you will be spending any resources on lobbying you should elect to come under the safe harbor of code section 501 (h).

Electing organizations can spend a portion of their total expenditures for lobbying. You must pay an excise tax if you exceed those limits and you can face loss of exemption if you exceed limits by more than 150%.

When you go to the general public and do grassroots lobbying, the dollar limits are reduced by 75% (to one fourth of the regular limits).

If you have elected the safe harbor you can expend the following percentages of your total expenditures on lobbying each year:

- 20 percent of the first 500,000
- 15 percent of the next 500,000
- 10 percent of the next 500,000
- 5% of the remainder up to one million.

25% of the above amounts are allowable for grassroots lobbying (with the general public).

A 25% excise tax is imposed on expenditures exceeding these limits.
Loss of exemption can result if an organization's four-year average exceeds 150 percent of these limits.

Election under code section 501 (h)

Should you register for the safe harbor limits mentioned above? Specialists in this area have generally said yes to organizations that incur any measurable amount of lobbying. The process is simple—see form 5768, available from the IRS at http://www.irs.gov/pub/irs-fill/f5768.pdf.

An IRS official has stated that an organization is somewhat less likely to be audited if they have elected and are reporting their expenses. Statistics don't support a decrease

in the audit rate. At the same time, we have never seen anything that would indicate that making the election increases the likelihood of an audit.
The downside of not electing this is huge—your exempt status can be at risk. Our advice: register and champion your cause.

Lobbying resources

To learn more about the lobbying process and get contact information for your legislators check the following Web sites.

Addresses for your president, senators and Congressperson
http://www.heartsandminds.org/articles/lobby.htm

Email addresses and other contact information for your government representatives
http://www.ifas.org/activist/
http://www.lwv.org/cgi-bin/congress.pl?cf=lwv/cong.cf

For fun facts about lobbying to look at
http://ethics.state.wi.us/LobbyingRegistrationReports/LobbyFunFacts.htm

For articles on voter registration and education go to
http://www.communitychange.org/getme_polls.htm

And for answers to your lobbying questions
http://www.nonprofitzone.com/lobby/lbreruns.htm

And finally for an update on permissible activities for 501©(3) organizations visit
http://www.ombwatch.org/las/lobperm.html

Tax aspects of contributions

Learning objectives

Participants will learn the tax requirements for acknowledging cash and in-kind gifts.

Participants will learn the tax rules that apply to different types of gifts, including in-kind, deferred donations, and donations for which there is something in return.

Participant input

What is your policy for acknowledging contributions?

Have you sponsored or participated in a raffle? Do you know the tax rules for raffles?

If someone sells something to your agency at less than its value do you know what the tax implications are?

Presentation

IRS publication 526 "Charitable Contributions" contains much useful information about charitable gift requirements including information on when contributions are to be deducted. Additionally in March 2002 the IRS issued publication 1771 called "Charitable Contributions: Substantiation and Disclosure Requirements".

The general requirements for acknowledging contributions are that a donor needs to obtain written acknowledgment from a charity for any single contribution of $250 or more before claiming a charitable contribution deduction on their tax return.

If a donor contributes $75 or more in a single payment and receives something in return, the charity must provide a written statement about the amount of the contribution and the value of the item given in return. This does not apply when the amount that the donor receives is considered "insubstantial".

The IRS defines insubstantial as the lesser of 2% of the contribution or $76. Also, if a donor's contribution is at least $38 and only items, with your logo, which cost no more than $7.60, are given in return, you do not have to report those items and the donor does not have to reduce their contribution by the value of the item.

If donors receive membership in return for their contribution, that membership is considered an insubstantial benefit as long as the annual payment is $75 or less and the annual membership entitles the member to only things such as free or discounted admissions or parking and reduced cost purchases.

Here are some examples of appropriate wording for acknowledging contributions:

For a contribution when nothing is given in return

Thank you for your contribution of $500 to NCIL, received on June 30, 2002. No goods or services were provided in exchange for your contribution.

For a contribution when something of value is given in return

Thank you for your contribution of $500 to NCIL, received on June 30, 2002. In exchange for your contribution we gave you a book with an estimated value of $65.

For a contribution of goods

Thank you for your contribution of a wheelchair to NCIL, received on June 30, 2002. No goods or services were provided in exchange for your contribution.

For a contribution restricted for a specific use

Thank you for your contribution to the NCIL education fund in the amount of $500, received on June 30, 2002. No goods or services were provided in exchange for your contribution.

The single written statement at year-end confirming contributions for the year is appropriate even where someone gives multiple contributions of $250 during the course of the year.

Publication 1771 does confirm that an e-mail confirmation of the contribution does meet the requirements of a "written acknowledgment".

The IRS maintains a web site for exempt organizations at www.irs.gov/eo.

When can donors deduct contributions?

The general rule is that you deduct contributions when you actually make them in cash or other property. Although, when you exceed deduction limits, excess contributions can be carried to a later year.

When you pay by check, your contribution is considered to be made on the date you mail the check.

When you paid by credit card, contributions charged on your credit card are deductible in the year you make the charge.

If you use a pay by phone account, the date your financial institution pays the amount is the date you deduct the contribution.

A gift of capital stock made by endorsing a stock certificate is considered made on the date that you mail or deliver the certificate to the charity or to the charity's agent. If you give the certificate to your agent or to the corporation that issued the stock for transfer to the name of the charity, the date of your gift is the date the stock is transferred on the books of the Corporation. Planning point let the charity take care of the transfer

If you give a promissory note to a charity, your contribution is not deductible until you make note payments. However, if you borrow money and make a contribution you can deduct the contribution in the year you make it regardless of when you repay the loan.

If you give a charity an option to purchase real property at a bargain price, your deduction occurs when the organization exercises the option.

If your contribution is conditional on a future event that may not take place (such as the charity must receive matching funds), you cannot take a current deduction. This would not be true if there was a negligible chance that the event will not take place.

Bargain Sales-a Great Deal

When a taxpayer sells property to a charity at its fair market value the transaction is treated as a sale or exchange. When a taxpayer gives the property to a charity he or she has made a charitable contribution. When a taxpayer sells the asset to a charitable organization for less than its fair market value, the taxpayer has made a bargain sale. This is treated partly as a sale and partly as a charitable contribution.

The contribution amount is the excess of the fair value of the property over the amount paid by the charity. The contribution is subject to all of the same benefits, rules and restrictions as any other charitable contribution.

To determine whether there is any gain or loss on the sale, the donor will divide the donor's purchase price by the fair market value and apply the resulting fraction to the tax cost of the property. Gain or loss is determined by subtracting that amount from the sale portion of the transaction.

As an example, assume that a taxpayer/donor purchased property for $100,000. The property is now worth $150,000. The donor makes a bargain sale of the property to a qualifying charity for $80,000. The charitable contribution is calculated by subtracting the fair market value, $150,000, from the charity's cost, $80,000, so the gift is $70,000. The cost for determining any gain or loss is calculated by dividing the charity's purchase price by the fair market value, i.e., $80,000/$150,000, and multiplying that by the donor's tax cost of $100,000. The result, $53,333, is the cost, so the selling price of $80,000 results in a $26,667 gain on sale.

These rules work for various types of properties such as investment property, but there are limitations on contributions of "ordinary income" property such as inventory.

There are some other rules involving gifts of property that you should be aware of. One of these involves gifts of computer equipment. Now that we have all survived Y2K and a large portion of every corporation's technology budget isn't being devoted to preparing for that disaster, normal computer upgrades are expected to get on track (at least that's what Michael Dell thinks).

There is a special tax incentive for donating current technology computers to educational organizations. Could you use some current technology computers? What the rules say is that certain corporations can deduct their tax cost plus one-half of the depreciation they have taken when they donate current computer technology and equipment to an educational organization. The computers must be for educational purposes in grades K-12. The computers must be donated within two years of when they were acquired.

Many donors also give automobiles to charities. The IRS acknowledged its awareness of the differences in the amounts claimed as charitable contributions by taxpayers and the amounts received on resale of donated vehicles. The IRS even appeared to endorse this practice stating that such differences may be appropriate. However, in an administrative release the IRS indicated concern in continued scrutiny of vehicle donations.

Appendix
Sample Documents

NATIONAL COUNCIL ON INDEPENDENT LIVING
FISCAL POLICIES AND PROCDURES
APPROVED BY THE FINANCE COMMITTEE JULY 25, 2001

POLICIES

I. General

A. The Board of Directors formulates financial policies, delegates the administration of the financial policies to the Executive Director and administrative staff, and reviews operations and activities. These fiscal policies will be reviewed bi-annually by the NCIL finance committee and submitted to the full Governing Board for review and approval.

B. The Executive Director has responsibility for all operations and activities, including financial management.

C. The Staff Accountant is responsible to the Executive Director for all financial operations.

D. Financial duties and responsibilities must be separated so that no one employee has sole control over cash receipts, disbursements, payroll, reconciliation of bank accounts and other financial transactions.

E. In no event will checks be:

1. prepared from monthly statements (without review of supporting documentation.)
2. prepared in other than chronological order.
3. signed in advance
4. be made payable to "cash", "bearer", or similar payee
5. prepared on verbal authorization.

F. All out-of-town travel must be approved in advance by supervisor.

G. All forms will be completed in ink.

H. Purchasing

1. Purchases of $2,500 or less may be made at the discretion of the Executive Director without competitive quotes.

2. The Executive Director must authorize, in advance, all purchases over $500. All purchases for items or services exceeding $2,500 will require at least three written vendor quotations before authorization may be granted. Exceptions to this rule must be approved in writing by the Finance Committee.

3. No personal purchases will be made for employees, their relatives or friends.

I. The Staff Accountant will be responsible to see that each employee receives his/her payroll check/stub.

J. Financial operations will be in compliance with the regulations set forth in 45 CFR 74, 10 CFR 600, 10 CFR 440, OMB Circulars A-110, A-122 and A-133, and other applications as required.

K. NCIL's fiscal year is January 1 – December 31. An organizational budget shall be presented to the Governing Board at the fall meeting and adopted by the Governing Board prior to the beginning of the fiscal year.

L. An independent audit of the organization shall be completed within 90 days of the end of the fiscal year.

M. The Executive Director has the authority to move funds between line items up to 10% of the line item. Any modification to the budget above the 10% limit must be submitted to the Finance Committee for review and approval and then to the Governing Board (or Executive Committee in absence of the Board) for approval.

N. Original contracts, leases and subcontracts will be kept on file in the Accountant's office. The Executive Director or his/her delegate will keep a copy of all contracts and subcontracts.

O. The Executive Director will review all check requests and approve payment of same.

PROCEDURES

II. PETTY CASH

A. The following petty cash funds will be maintained on an impressed basis by the agency:

1. amount: $200.00
2. location: 1916 Wilson Blvd., Suite 209
3. custodian: Staff Accountant

B. The Staff Accountant will obtain a signed receipt for each withdrawal from the funds.

C. All petty cash funds will be kept in the safe. Access to petty cash funds will be limited to the:

1. Executive Director
2. Staff Accountant

D. Amounts greater than $40.00 must be paid by check.

E. The purchaser shall present a receipt approved by the Executive Director for payment from petty cash. If a purchase receipt is not available, the purchase must be identified on a petty cash slip.

F. The Staff Accountant shall insure that all receipts and/or petty cash slips are properly completed, signed and approved before payment is made.

G. At all times the petty cash box shall contain receipts and cash totaling the amount of the petty cash fund.

H. When expenditures from petty cash fund reach $160.00, the Staff Accountant will reimburse the petty cash funds for the authorized petty cash receipts.

I. All reimbursement checks shall be made payable to: Bank of America – Petty Cash.

J. Any irregularities in the petty cash fund will be immediately reported in writing to the Executive Director.

K. Loans and payments for personal items will not be made from petty cash.

L. Advanced petty cash funds may be given to the purchaser with an approved petty cash slip. A receipt(s) for the purchase made with advance funds is due to the Staff Accountant within 2-days of the advance. If a receipt is not received by

the time the petty cash fund is next reconciled; the purchaser may be held liable for the advanced funds. If not paid, the responsible employee may have the advanced amount withheld from his or her next paycheck.

M. The petty cash fund will be reconciled once a month.

III. INCOMING FUNDS

A. Mail Receipts

1. The Secretary/Receptionist shall immediately stamp all checks with "For Deposit Only, National Council on Independent Living and the operating account number."
2. The Secretary/Receptionist shall copy the checks and forward the original checks, any documentation or remittance advises and the copies of the check immediately to the Staff Accountant.
3. Copies of documentation accompanying receipts (NCIL invoices, training registrations, membership forms) shall be given to the appropriate project staff. The copy shall include the check number, amount, date received and name of organization issuing check if different than purchasers name.
4. The Staff Accountant will complete a deposit slip and run an adding machine tape daily. The photocopy of the checks, any documentation or remittance advises will be attached to the duplicate deposit slip and filed by month.
5. The Executive Assistant will deposit all receipts intact at least once a week.

B. Direct Receipts

1. Anyone making a payment in cash must receive a receipt with the date, amount received, the name of the individual paying in cash and the item/service being paid.
2. All cash received must have a copy of the receipt attached. The receipt must include name of the individual giving the cash, the date received and the description of the payment.
3. Cash received in the NCIL office will be forwarded to the Staff Accountant immediately.

C. Donations of Stock

1. Donations of Stock will be immediately forwarded to NCIL's account with Solomon-Smith-Barney with instruction to sell the stock upon receipt. Funds obtained from the sale of the stock will be deposited into the NCIL operating account within 7 business days.

D. The Staff Accountant will record all cash receipts by general ledger journal entries.
E. All check and cash receipts shall be kept in the safe until deposited. Deposits shall be made at least once a week.

IV. DISBURSEMENTS

A. Check authorization:

1. General operating invoices will be immediately forwarded to the Staff Accountant.
2. Project specific invoices shall be immediately forwarded to the appropriate project staff.
3. The appropriate project staff will approve for payment invoices related to the specific project. Approval will be in writing by initialing the invoice.
4. The approved invoice will be forwarded to the Staff Accountant for payment.
5. All invoices will be paid by computer-generated checks.
6. In emergencies, invoices may be paid by manual check with prior approval from the Executive Director.
7. No check shall be written and signed by the same person.

B. Checks

1. The Staff Accountant will be responsible for all blank checks, which will be kept in the locked safe.
2. The Staff Accountant will record all invoices, according to costs allocations in the general ledger. Checks will be produced through the information recorded in the general ledger.
3. The Executive Director will review all check requests and backup documentation and sign all checks. Any checks, other than monthly office rent, over $2,500 must have two authorized signatures. The second signatory will be provided with a copy of the back-up documentation for review.
4. Checks made out to the Executive Director under $500 must have pre-approval by the president, vice president or treasurer of the board prior to being written.
5. An authorized signatory other than the Executive Director must sign checks made out to the Executive Director over $500.
6. The computer-generated check-stub, showing check number, vendor name and amount, must be attached to the check request and back-up documentation.
7. In the case where the documentation is not attached to the copy, source documentation must be available elsewhere.
8. Voided checks will have "VOID" stamped in ink across the face of the check and attached to the check-stub, which will also be marked voided. If another check is issued to pay the invoice, the documentation will be transferred from the void check to the second check's check-stub.

C. Bank Reconciliation

1. Bank statements will be forwarded, unopened to the Executive Director.
2. Cancelled checks will be examined for date, name, cancellation and endorsement. The monthly bank statements will be reviewed. Review will be indicated in writing by initialing the first page of the statement.
3. The Staff Accountant will prepare the bank reconciliation.
4. The Executive Director will review the bank reconciliation monthly.
5. The reconciled bank balance will be compared to the general ledger cash account and adjustments will be made to the general ledger as needed by the Staff Accountant.
6. The Staff Accountant will provide the Executive Director with a copy of bank reconciliation report and balance sheet for his/her review.
7. The Staff Accountant will follow-up on any outstanding checks after 90-days from issue and will void outstanding checks if appropriate.
8. Cancelled checks will be filed in numerical order by month.

V. ACCOUNTS RECEIVABLE

A. Invoicing

1. Project specific invoices will be developed by project staff as follows:
   - IL NET invoices – IL NET Logistics Coordinator
   - Membership/Donations invoices – Membership Services Coordinator
   - General Reimbursement invoices – Staff Accountant

2. Each invoice shall be numbered in sequential order.

3. Prior to developing the invoice, staff shall obtain an invoice number from the "invoice number" list in the Staff Accountant's office. Staff shall cross out the number(s) to be used in order to prevent duplicate invoices.

4. A copy of the invoice shall be given to the Staff Accountant.

5. The Staff Accountant shall input the invoices into the general ledger – accounts receivable monthly.

6. Project staff shall review their project specific invoices on a monthly basis.

7. Project staff shall send "Second Request" invoices for any outstanding invoices over thirty (30) days. Project staff shall notify the Staff Accountant of second requests for payment.

8. Project staff shall contact the bookkeeper or Staff Accountant of the organization(s) with an outstanding invoice of over sixty (60) days, to ascertain the receipt of payment.

9. The Staff Accountant shall provide a list of outstanding accounts receivable for the Executive Director's review on a quarterly basis or as requested.

10. The Executive Director will review all proposed debt to be written-off with the independent auditor at the end of each fiscal year.

VI. PURCHASING

A. Purchases

1. All requests for supplies must be made through the Executive Assistant. Project staff may request project specific purchases within the budget line item of their grant.

2. The Executive Assistant will review supply requests with the Staff Accountant to insure expenditures are within the budget line item.

3. Purchases over $500 must be pre-approved by the Executive Director.

4. If goods or services are purchased from a relative of the purchase approver, it must be shown in writing that the price is at or below the prevailing market rate for the goods or services.

5. Only goods and services necessary for the continuing or completion of NCIL's goals and mission may be purchased. All purchase decisions are subject to the review of the Executive Director.

B. Contracts and Leases

1. Consideration will be given to in-house capabilities before contracting.

2. If the total cost of leasing equipment, over three-years or the expected life span period, is greater than the purchase price, the equipment should be purchased.

3. Written contracts clearly defining the work/service to be performed will be obtained for all consultant and contractual services.

4. The qualifications of the consultant and reasonableness of fees will be considered in awarding contracts.

5. Consultant and contractual services will be paid as stipulated in the contract.

6. Contract compliance monitoring procedures and specifications will be stipulated within the contract. Final payment of all contracts will be withheld until all contractual obligations are met.

7. All leases and contracts must be approved and signed by the Executive Director.

VII. INVENTORY AND PROPERTY

A. To perpetuate the property control process, the following is the responsibility of the Staff Accountant.

1. The Staff Accountant maintains a master file of all property and assets at NCIL main office.

B. To insure that the inventory of property and assets is maintained for insurance and grant (funding sources) purposes.

1. The requirement for maintaining property and asset records applies to all property costing $ 500.00 per unit or having a life use of more than three (3) years. A copy of all invoices for purchase of property and assets are kept by the Staff Accountant.

VIII. PAYROLL

A. New Employees

The Staff Accountant will be responsible for:

a. Preparing an Employee Payroll Information form
b. Obtaining a completed W-4 for new employees.
c. Providing new employee with health insurance and other benefit forms, explaining benefits to new employees and answering employee questions about benefits.
d. Establishing a personnel file for each new employee. The employee payroll information form, W-4, I-9 and all original deduction authorizations will be kept in the personnel file. Other program specific items may be included but will be determined by the appropriate program.

B. Employee Payroll Information

1. The Staff Accountant will prepare an Employee Payroll Information form on all employees upon a change of status affecting the employee's:

a. pay rate
b. name, home address/telephone number
c. department
d. voluntary withholdings
e. starting or termination dates

2. A copy of the approved form will be placed in the employees personnel file. The approved form will be the substantiation for all payroll changes.

C. Time Sheets

1. Completed time sheets will be submitted to the employee's supervisor for review and approval. Approved (initialed) time sheets will be submitted to the Staff Accountant.

2. Incomplete or inaccurate time sheets will be returned to the supervisor.

3. The Staff Accountant will be advised by the Executive Director when any employee is on leave without pay (LWOP) status.

4. The Staff Accountant will keep sick, vacation and personal leave usage on all employees.

5. The Staff Accountant will provide each staff member information about their available sick, vacation and personal time on the 15th of every month. The Executive Director will receive a copy of all staff's leave information.

6. Approved time sheets will be kept on file after time entry is completed.

D. Payroll Checks

1. Payroll checks will be produced and distributed to employees twice a month. NCIL employees will receive paychecks or pay-stubs from the Staff Accountant. Direct deposit of pay will be offered to all persons receiving a paycheck from NCIL.

2. Payroll checks will be processed according to written payroll procedures and the operating procedures of the outsourcing payroll firm, if any.

IX. INSURANCE

A. All insurance policies will be maintained by the Staff Accountant.

B. Reasonable, adequate coverage will be maintained for property, general liability, worker's compensation, unemployment, and directors and officers liability.

C. Insurance policies will be reviewed annually before renewal. Bids may be sought from other vendors at the discretion of the Executive Director. Increased coverage or higher limits must be approved by the Executive Director unless required by legislation.

X. BOOKS OF ORIGINAL ENTRY

A. The agency will utilize a double entry accrual system for accounting of all funds.

B. All disbursements are coded directly to the expense accounts on the general ledger. All cash deposits are recorded by journal entry in the general ledger.

C. The Staff Accountant will prepare all journal entries to the general ledger and will maintain sufficient documentation to support the journal entries.

D. After the end of each month, the Staff Accountant will input general ledger entries into the accounting system and run the interface program for payroll, accounts payable and accounts receivable. After the information has been processed, the balance sheet, trial balance, general ledger journals, revenue and expense statements will be printed and presented to the Executive Director by the fifteenth of every month. The finance committee of the Governing Board will receive a copy of the balance sheet and income and expense reports on a monthly basis. The full Governing Board will receive financial statements on a quarterly basis.

E. The finance committee of the Governing Board will meet at least quarterly to review and approve finance statements.

F. Expense accounts in the general ledger will correspond as closely as possible to the budget line items.

G. The Chart of Accounts will be maintained in the General Ledger on the Balance Sheet and Revenue and Expense sections.

H. Capital assets are defined to be equipment, furniture, fixtures, and improvements owned by the agency with an acquisition cost of over $500 per item or having a life use of over three (3) years.

XI. GRANTS AND CONTRACTS

A. Preparation

1. All grant budgets will be prepared by the Staff Accountant, Executive Director and the appropriate project staff.

B. Receipt

1. Originals of all grant awards and contracts will be immediately forwarded to the Finance Office and filed.

2 The Staff Accountant will enter a budget in the general ledger for each award officially granted to the agency.

3. The Staff Accountant will carefully review each award to insure that all financial provisions are correct and in compliance with applicable regulations.

4. The Executive Director will carefully review each award to insure that all programmatic provisions will be fulfilled.

C. Revisions

1. If a budget revision is necessary during the grant period the Staff Accountant and Executive Director will prepare a revision and submit it to the funders for approval.

D. Reports to funding sources:

1. The Staff Accountant will prepare financial reports to funding sources as required by the terms of the grant award or contract.

2. The Executive Director will review and approve all reports to funding sources.

3. The Executive Director will sign all reports to funding sources.

XII. OTHER

A. Travel Reimbursement

1. Staff shall be reimbursed for costs associated with approved travel upon receipt of travel reimbursement request forms and receipts for costs.

2. Approved costs associated with travel include: meals, mileage, parking, tolls, airline/train tickets and/or hotel sleeping room.

3. Approved reimbursement requests received by the Staff Accountant shall be paid within five (5) workdays. This schedule may vary occasionally due to holidays, bad weather, etc.

4. Meal per diems and mileage reimbursement rates are set by the Board of Directors. Rates are in effect until such time as a change in rates is made.

5. Travel advances – Occasionally an employee may request a travel advance check when out-of town travel is planned. The employee will compute the per diem allowance, any transportation costs such as parking fees, shuttle bus, taxi fares, etc. and submit it in memo form, along with her or his departure and return date and destination to the Executive Director for approval. A travel advance check will be ready for the employee at least the day prior to departure unless adequate notice has not been given to the Staff Accountant.

C. Corporate Credit Card

1. Corporate credit cards shall be issued to the Executive Director, IL NET Logistic Coordinator and IL NET Training Specialist. Other corporate credit cards shall be issued as necessary by the Executive Director.

2. When travel is required the corporate credit cards may be used to purchase airline/train tickets, cover hotel sleeping room costs, incidentals (within approved reimbursement rates). Use of the corporate credit card for costs not related to travel, must be pre-approved by the Executive Director.

3. All corporate credit card receipts must be given to the Staff Accountant within 2 days of use or return from travel. All receipts must have the program to which the cost is to be allocated.

4. Staff may be asked to reimburse the agency if they are unable to produce a receipt for a purchase made with the corporate credit card.

5. Under NO circumstances shall the NCIL corporate credit card be used for purchasing personal items.
6. If the corporate card is lost or stolen, the employee must contact the credit card company immediately and inform the Staff Accountant and Executive Director.

7. Any misuse of the corporate credit card shall result in immediate cancellation of the card and possible disciplinary action.

C. Minutes of meetings:

1. The Executive Director, Staff Accountant and Board of Directors will receive and review a copy of minutes of the Finance Committee and other committees with decisions that impact the finances of the organization.

The Staff Accountant will note all items in the minutes relating to finance and take appropriate action.

D. Cost Sharing:

1. Each program will pay for the direct costs relating to that program.

2. Personnel designated by the Executive Director will maintain time allocation reports indicating the amount of time spent on each program.

XIV. REPORTING

A. Form 990 will be prepared by the auditing firm contracted to perform the agency annual audit. The Staff Accountant will review and approve these reports; the Executive Director will sign them.

B. The State Business Registration report, State Charitable Contribution and Secretary of State Corporate Annual reports (VA and MO) shall be prepared by the Staff Accountant; the Executive Director will sign them.

LOCAL CENTER FOR INDEPENDENT LIVING, INC.
STATEMENT OF ACTIVITIES

	Budget for June 30 - 03	Forecast cash flows Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Support and Revenue							
Support:							
State Independent Living	475,000						
Department of Health	135,000						
Federal IL	190,000						
Total Support	800,000						
Revenue:							
Fees For Service	40,000						
Investment Income	3,500						
Other Income	1,500						
Fund Raising Income	5,000						
Total Revenue	50,000						
Total Support and Rev	850,000						
Expenses							
Payroll	425,000						
Payroll Taxes & Benefits	68,000						
Rent and Utilities	46,000						
Transportation	52,000						
Office Expense	41,000						
Peer Counseling Fees	36,000						
Conferences	21,000						
Supplies	22,500						
Telephone	26,000						
Depreciation	20,000						
Interpreter Fees	12,500						
Postage and Printing	11,000						
Publications	8,500						
Legal and Accounting	10,800						
Other Administrative	7,200						
Equipment Maintenance	8,000						
Insurance	12,500						
Building Maintenance	6,300						
Advertising	4,900						
Total Expenses	839,200						
Excess of support and revenue over expenses	10,800						

Federal and state independent living grants are received monthly starting July 1
The Department of Health grant is received 50% July 1 & 50% January 1
The fund-raising event is held in December
"Utilities are 50% higher in June, July & August"

INDEPENDENT LIVING ORGANIZATION
Statement of Financial Position
At June 30, 2002

Assets		
Current assets		
Cash and cash equivalents	$	36,450
Contributions receivable (Note 2)		42,100
Leasehold interest, current (Note 3)		34,500
Prepaid expenses		3,800
Deposit		2,000
		118,850
Noncurrent assets		
Vehicles and office equipment (Note 4)		26,400
Leasehold interest, noncurrent (Note 3)		213,950
Investments (Note 5)		67,800
		308.150
Total assets	$	427,000
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$	34,500
Net assets		
Unrestricted		68,150
Temporarily restricted (Note 9)		266,550
Permanently restricted (Note 10)		57,800
		392,500
Total liabilities and net assets	$	427,000

See accompanying auditors report and notes to financial statements.

ABC CENTER FOR INDEPENDENT LIVING, INC.
BUDGET TEMPLATE FOR FOUNDATION PROPOSAL

(Must be accompanied by the Project Narrative)

Fiscal year end date:
Project title:
Total amount requested from The Foundation: $
Project start and end date:

PROJECT INCOME				
	Anticipated	**Committed**	**Total**	**Internal Use Only**
Contributed Income				
Local Government			$0	
State Government			$0	
Federal Government			$0	
The Foundation			$0	
Other Foundations*			$0	
Corporations*			$0	
Board/Individual Contributions			$0	
Other*			$0	
Earned Income				
Client Fees			$0	
Membership Dues			$0	
Contract Services*			$0	
Publications and Products			$0	
Ticket Sales			$0	
Organization Income			$0	
Other*			$0	
Total Project Income	**$0**	**$0**	**$0**	

PROJECT EXPENSES				
	Foundation Request	**Other Funding**	**Total**	**Internal Use Only**
Personnel Expenses				
Salaries and Wages*			$0	
Fringe Benefits			$0	
Non-Personnel Expenses				
Contract Services/Professional Fees*			$0	
Office Space			$0	
Equipment/Supplies			$0	
Staff/Board Development			$0	
Travel/Related Expenses			$0	
Indirect Costs*			$0	
Other*			$0	
Total Project Expenses	**$0**	**$0**	**$0**	
Excess (Deficiency)*			**$0**	

** list or explain in narrative*

BEST COPY AVAILABLE

Model Accounting & Financial Policies and Procedures for Nonprofit Organizations

From Nonprofit Resource Center (a division of Williams Young, LLC)

Creating a comprehensive and current accounting and financial policies manual has never been easier! We've developed model policies covering more than 180 different areas of a nonprofit organization's accounting department and included them on a CD-ROM. These policies are written in Word 2000, Word 97 and Word 6.0 (Microsoft Word software not included). In a matter of hours, you can customize these policies to fit most nonprofit organizations. Some of the policies included on the CD are:

General Policies
Role of the board of directors
Business conduct & ethics
Fraud policies
General ledger
Chart of accounts structure
Security
Technology policies

Revenue and Cash Receipts
Revenue recognition policies
Contribution accounting
Billing and collections
Accounts receivable processing
Handling cash and checks received
Credits and uncollectible accounts

Expenses & Cash Disbursements
Purchasing policies
Authorizations & purchasing limits
Conflict of interest policies
Accounts payable management
Expense reimbursements
Travel and entertainment
Check writing and signing
Check distribution
Classification of workers
Payroll procedures
Timesheets

Asset and Liability Accounts
Bank reconciliations
Inventory
Investment policies
Fixed assets and depreciation
Accounting for leases
Accrued leave
Notes payable

Financial and Tax Reporting
Financial statement preparation
Government returns
Public access to information

Financial Management
Budgeting
Selection and use of auditors
Insurance
Record retention
Functional expense allocations

Federal Grants and Awards
Billing and financial reporting
Cash drawdowns
Procurement policies
Subaward policies
Equipment purchases
Budget and program revisions
Cost sharing and matching
Charging of costs to awards

Each CD, which comes with a **Single-User License Agreement**, is **normally $395**. Under the Single-User License, your organization is entitled to install or use these model policies at a single site of your organization.

Special Pricing for National Council on Independent Living conference attendees:

Order by September 30, 2002, and pay only $350!

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For attendees of
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Credit card orders may be faxed to: 301-987-0988

IL NET TRAINING PROJECT

$OUND FINANCIAL MANAGEMENT

August 26-28, 2002

Seminar Evaluation Form

WE VALUE YOUR OPINION! We review every evaluation form. Please give us your feedback about today's program by completing this form and turning it in before you leave (or mail it back to NCIL, Attn: Toony Buppapong, 1916 Wilson Blvd., Ste. 209, Arlington, VA 22201).

	Not at all		Average		Excellent
Was the seminar content:					
Organized?	1	2	3	4	5
Interesting?	1	2	3	4	5
Useful?	1	2	3	4	5
What you hoped it would be?	1	2	3	4	5
Overall content rating	1	2	3	4	5
Did the trainers know the subject?					
John Heveron	1	2	3	4	5
Frank Shible	1	2	3	4	5
Did the trainers hold your attention?					
John Heveron	1	2	3	4	5
Frank Shible	1	2	3	4	5
Did the trainers use relevant examples?					
John Heveron	1	2	3	4	5
Frank Shible	1	2	3	4	5

Overall trainer rating	Low				High
John Heveron	1	2	3	4	5
Frank Shible	1	2	3	4	5
How likely is it that you will use what you learned at this training?	1	2	3	4	5
Overall training conference rating	1	2	3	4	5

How well did this training develop your skills and knowledge for...

	Low				High
1. determining what is financially proper and appropriate?	1	2	3	4	5
2. controlling and safeguarding your organization's assets and resources?	1	2	3	4	5
3. tracking, interpreting and reporting your organization's financial status?	1	2	3	4	5
4. building a better budget?	1	2	3	4	5
5. defining board and staff roles in financial management?	1	2	3	4	5
6. identifying outcomes and why they are important?	1	2	3	4	5

Please list 2 or 3 of the most important things you learned from this training.

What else do you wish you would have learned at this training?

What do you wish the training had spent more time on?

What do you wish the training had spent less time on?

What might prevent you from using the information back on the job?

What would you like to see IL NET do as an on-site training?

What would you like to see IL NET do as a teleconference?

Please make any additional comments you think might be helpful to us:

THANK YOU FOR THE GIFT OF YOUR TIME

IL Net Presents

$ound Financial Management

August 26-28, 2002
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IL NET Presents

$ound Financial Management

August 26-28, 2002

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An Audio Cassette of the **IL NET National Conference** is available. If you would like a set, please fill out the order form below.

Please Print or Type

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Center: _____

Address: _____

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Number of sets: _____ x $35.00 = $_____
(Shipping included)

Payment Information:

Credit Card#_____**Exp.**_____

Print Name:_____

Authorizing Signature:_____
(By signing you authorize NCIL to charge your credit card) MasterCard and VISA only.

Please mail order form and payment to :
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Attention: Toony Buppapong

IL NET Presents

$ound Financial Management

August 26-28, 2002

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Credit Card#_____ **Exp.**_____

Print Name:_____

Authorizing Signature:_____
(By signing you authorize NCIL to charge the Do-it-Yourself Kit to your credit card)

Please mail order form and payment to :
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Arlington, VA 22201
Attention: Toony Buppapong

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